



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

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AUDITS AND FINANCIAL ACCOUNTABILITY COMMITTEE

OPEN MEETING 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: March 10, 2021
Time: 12:15 – 1:15 PM
Public Videocast: <http://jcc.granicus.com/player/event/1211>

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 July 14, 2020, meeting of the audit committee.

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 March 9th, 2021 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

Item 1

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

Review and approve for posting the State Auditor's recent audit report concerning procurement practices at five superior courts. The State Auditor is required to audit court compliance with the Judicial Branch Contract Law per Public Contract Code, Section 19210(a).

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 public posting the State Controller's recent audit of San Joaquin Superior Court's revenues, expenditures, and fund balance for fiscal year 2017-18. Government Code, Section 77206(h) requires the State Controller to periodically audit the trial courts and how they account for the funds under their control.

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

Item 3

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

Review and approve for public posting the State Controller's recent audit of El Dorado Superior Court's revenues, expenditures, and fund balance for fiscal year 2017-18.

Government Code, Section 77206(h) requires the State Controller to periodically audit the trial courts and how they account for the funds under their control.

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

Item 4

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

Review and approve for public posting the State Controller’s recent audit of Solano Superior Court’s revenues, expenditures, and fund balance for fiscal year 2017-18. Government Code, Section 77206(h) requires the State Controller to periodically audit the trial courts and how they account for the funds under their control.

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

V. ADJOURNMENT

Adjourn the meeting

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

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 Courts of Appeal, Sixth Appellate District, per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Joe Meyer, Senior Auditor – 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 Napa Superior Court, per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Joe Meyer, Senior Auditor – Judicial Council’s Audit Services

Item 7

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 Imperial Superior Court, per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Joe Meyer, Senior Auditor – Judicial Council’s Audit Services

VII. ADJOURNMENT

Adjourn the meeting



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ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING WITH CLOSED SESSION

July 14, 2020
12:15 p.m. - 1:45 p.m.
Conference Call

Advisory Body Members Present: Hon. David Rosenberg, Hon. Peter Siggins, Hon. Mary Ann O'Malley, Hon. Arthur A. Wick, Mr. Kevin Lane, Mr. Neal Taniguchi, Mr. Phil Jelichich (non-voting advisory member)

Advisory Body Members Absent: Ms. Kate Bieker, Ms. Michelle Martinez

Others Present: Mr. Grant Parks (Lead Committee Staff, Principal Manager of Audit Services Office), Ms. Dawn Tomita (Audit Supervisor, Audit Services Office), Mr. Charles Johnson (Court Executive Officer, California Court of Appeal, 1st Appellate District), Mr. Oliver Cheng (Attorney, Legal Services Office of the Judicial Council), John Prestianni Cheng (Attorney, Legal Services Office of the Judicial Council), Andrew Tran Cheng (Attorney, Legal Services Office of the Judicial Council), Jimmy Nguyen Cheng (Attorney, Legal Services Office of the Judicial Council)

OPEN MEETING

Call to Order and Roll Call

The chair welcomed committee members and called the meeting to order at 12:18 p.m. and took roll call.

Opening comments by the Chair and Vice-Chair

Judge Rosenberg informed that pursuant to the request of Chief Justice, due to the pandemic, the same Board Members will continue to serve on the Board for the next year. Judge Rosenberg and Justice Siggins thanked current members for agreeing to serve for the next year. Future meetings will be facilitated via Zoom or Teams application (to be announced after checking Judicial Council guidelines).

Approval of Minutes

Judge O'Malley moved to approve the minutes of the February 10, 2020 meeting. Judge Wick 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 provided information on audit progress and staffing. In current Fiscal Year 2020-2021 Mr. Parks anticipates budget impacts which may affect ability to perform some work. This will be discussed in more detail when this committee reviews the proposed audit plan for FY 2020-2021. There might be some challenges with budget funding for travel, which will impact auditor's work in courts in this fiscal year.

As for external audits from the State Controller's Office, Governor took \$1 million to fund audits performed by SCO (which is required by statute). When budget act was passed by Legislature, they put that funding back. This was the budget change proposal that we developed with the direction of Audit Committee, to make sure that Courts didn't have to pay for these audits performed by SCO. Mr. Parks anticipates that in FY 20-21 there will be roughly \$1.5 million in appropriation to fund fourteen to fifteen SCO audits. These audits will investigate revenues, expenditures, and fund balance. We are currently in contract with SCO to perform eight audits, one of which will be reviewed today. Mr. Parks will discuss with SCO regarding planning of the remaining fifteen audits.

State Controller's Office will be auditing the Judicial Council this year to review how JCC manages revenues, expenditures, and fund balance. This audit will begin this fall and the report will probably be provided for review in spring. In addition, the State Auditor is currently in the process of selecting five trial courts to do biennial procurement audit of Judicial Branch contracting law. State Auditor's Office continues statewide audits of Mental Health under Lanterman-Petris-Short Act. That report will be issued July 29th. If there are any issues pertaining the Judicial Council or trial courts, committee members will be informed at our next meeting.

Info 2

General Discussion by Audit Committee Members

Mr. Taniguchi asked about ability to audit cash handling this year. Mr. Parks replied that a lot work during cash handling audits require auditors to physically visit courts to visually inspect controls. The areas of audit include cash handling, making deposits and making sure the right procedures are followed. That is not possible to audit this remotely or over the phone or through email. Therefore, it was proposed to temporarily suspend cash handling part of audit in audit plan for FY 20-21.

Action Item 1

Annual Audit Plan – Fiscal Year 2020-21 (Action Required)

Mr. Parks provided an overview of proposed audit plan for fiscal year 20-21 and courts that will be audited. This audit plan does not include cash handling audit procedures. Testing of cash handling requires audit staff to visit courts in person to visually inspect (through observation) the daily deposit process, end of day balancing and closeout process, tracking of mail payments, and voided transactions. Given budget uncertainty and health concerns due to COVID-19, the audit plan proposes to temporarily suspend audit work that requires travel to the courts.

The audit plan also excludes evaluating court compliance with the Judicial Council's court interpreters payments policies. The audit committee suspended audit in this area pending revisions to the council's interpreter pay

policies. Court Executives Advisory Committee (CEAC) is working on revisions to the policy, and it is soon to be completed. When these changes are implemented, they will address the concerns we had in our prior audit findings. Until those proposed revisions become official, the audit plan does not include testing of payments to court interpreters.

Mr. Taniguchi suggested that if benefit of cash handling audit outweighs the small costs of travel expenses, this audit plan can be updated, if Judicial Council approves budget for this travel. He also suggested that it may be beneficial to perform comprehensive audits, even if it causes that audit team will perform fewer audits.

Judge Wick agreed with these comments. Mr. Parks agreed and proposed that he will discuss travel budget with Budget Services. Another topic Mr. Parks will discuss is advisability of travel, since majority of JCC staff is on emergency telework program due to COVID-19. He will inform of the results of this discussion with committee members via email. In addition, JCC just recently implemented one day per month of furlough days to accommodate budget cuts. To accommodate this cut in work hours, auditors from Internal Review Team will assist Superior and Appellate Courts Review team to conduct audits.

Action: Mr. Taniguchi moved to approve draft audit plan with understanding that Mr. Parks will discuss with Executive Office travel budget and advisability of travel in current situation. The motion was seconded by Judge O'Malley.

Action Item 2

Annual Audit Plan – Discussion State Controller’s Recent Audit of Sutter Superior Court’s Revenues, Expenditures, and Fund Balance for Fiscal Year 2017-18 (Action Required)

Mr. Parks provided a review of State Controller's recent audit of Sutter Superior Court's revenues, expenditures, and fund balance for fiscal year 2017-18. Government Code, Section 77206(h) requires the State Controller to periodically audit the trial courts and how they account for the funds under their control. Judicial Council is currently in contract with SCO to have eight audits done. Audit of Sutter Superior Court is the first audit. The overall conclusion of this audit is positive. Revenues, expenditures, and fund balance reported by this court complied with governing statutes, regulations, and Judicial Council's policies. Nevertheless, audits usually point out the issues that need to be improved. This audit did note some issues with how revenues and expenditures are being reported. Sutter Superior Court agreed with those findings and having discussions with Branch Accounting and Procurement Office of the Judicial Council regarding corrective action for these findings.

Action: Justice Siggins moved to approve posting of this audit report on Judicial Council's website. The motion seconded by Judge Wick. Motion approved unanimously.

Action Item 3

Revisions to the Judicial Branch Contracting Manual (Action Required)

Oliver Cheng from Judicial Council Legal Services Office provided an overview of proposed changes to the Judicial Branch Contracting Manual (JBCM). Under Rule of Court 10.63, Audit Committee reviews proposed revisions to JBCM. If this committee finds the proposed revisions acceptable, they will be provided to Executive Committee. Then these changes will be placed on consent agenda for Judicial Council's meeting on October 1, 2020. The

proposed revisions are for chapters 3, 4 and 5 of the JBCM. All the proposed changes were posted for public comments for two weeks in June 2020, and no public comments were received.

Mr. Nguyen, Attorney with Legal Services Office of the Judicial Council, provided an overview of proposed changes to Chapter 3 of JBCM related to disabled veterans' business enterprise requirements.

Mr. Tran, Attorney with Legal Services Office of the Judicial Council, provided an overview of proposed administrative and ministerial changes to Chapter 4 and 4c of JBCM.

Mr. Cheng provided an overview of changes to Chapter 5 of JBCM. It was proposed to add an exception to competitive bidding for the procurement of non-IT training. This will provide Judicial Branch a greater flexibility to procure training while also remaining similar to State Contracting Manual and in accordance with Judicial Branch contract law.

Approved these changes to be placed on consent agenda for the September meeting.

Action: Judge O'Malley moved to approve the motion to approve these changes and the report and to place it on consent agenda for the next Judicial Council meeting. Motion seconded by Justice Siggins. Motion approved unanimously.

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 12:55 p.m.

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

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 San Diego Superior Court, per Rule of Court 10.63(c)(1).

Action: Mr. Taniguchi moved to approve this report for posting (seconded by Judge Wick). The motion passed by unanimous voice vote of the committee members present.

Item 5

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 Court of Appeal, First Appellate District, per Rule of Court 10.63(c)(1).

Action: Judge Wick moved to approve this report for posting (seconded by Mr. Lane). The motion passed by unanimous voice vote of the committee members present.

Item 6

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 Court of Appeal, Second Appellate District, per Rule of Court 10.63(c)(1).

Action: Justice Siggins moved to approve this report for posting (seconded by Judge O'Malley). The motion passed by unanimous voice vote of the committee members present.

Adjourned closed session at 1:15pm.



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

Meeting Date: 03/10/2021

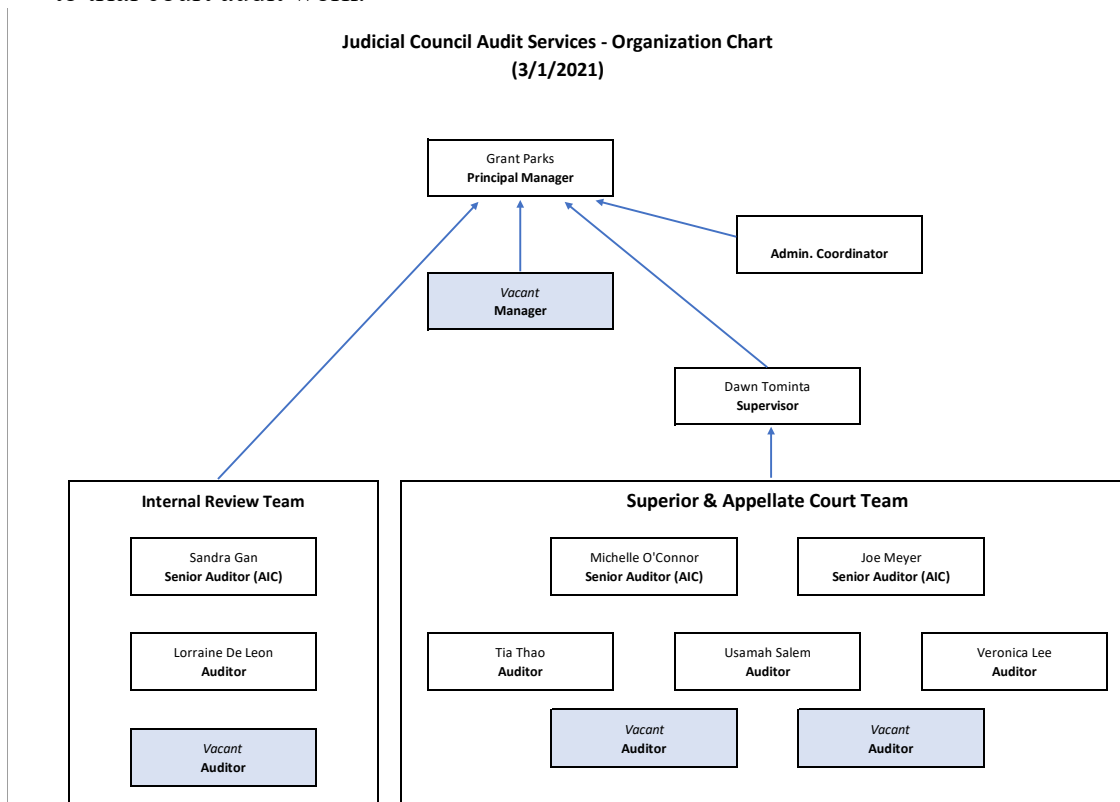
Informational Item #1 – (No Action Required)

Report from Audit Services

Status Update – Judicial Council’s Audit Services

Workload & Staffing

Audit Services has three senior auditors and four staff auditors, all of whom are assigned to trial court audit work.



Judicial Council staff have audits in progress at the following courts:

- Amador
- Mariposa
- Mono

- Sonoma
- Riverside
- Santa Clara
- Shasta

Our strategy during the Covid-19 pandemic has been to allow courts to respond to audits at their own pace, while having several audits ongoing at any single time to ensure audit work can continue to progress. Audit review of court cash handling procedures was suspended in the audit plan to limit travel during the pandemic.

Status of External Audits

State Controller's Office (SCO)

Audit Program of the Trial Courts

The SCO audits the revenues, expenditures, and fund balances of the trial courts per the requirements of the Government Code. The SCO has completed three audits that you will hear today (San Joaquin, El Dorado, and Solano). The SCO has four audits close to completion (Placer, Stanislaus, Kern, and Merced) and has selected another five trial court audits that will begin this year (Colusa, San Diego, Tulare, Ventura, and Yuba).

Important update: At the July 2020 meeting, I informed the audit committee that the 20-21 budget act included \$1.5 million from the TCTF for SCO audits of the trial courts. Although the budget act did include this language, I've been informed by Judicial Council budget staff that this was a legislative error. As a result, the council only has spending authority of \$540,000 for SCO audits (roughly 4-5 audits per year instead of the 15 audits discussed previously).

Audit of the Judicial Council

Government Code, section 77206(i) requires the SCO to audit the Judicial Council's revenues, expenditures, and fund balances for all funds under its control on a biennial basis. The SCO held an entrance conference with Judicial Council accounting and human resources staff on February 1st and the report is expected in August 2021.

State Auditor's Office (CSA)

CSA completed its biennial audit of trial court procurement practices that will be discussed today. Its audit of the Judicial Council's procurement practices is expected to begin later this year and should be published in December 2021.



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 03/10/2021

Action Item #1 – (Action Required)

External Audit – State Auditor’s Office

Requested Action:

- **Action Item** – Discuss and approve for public posting the State Auditor’s report on trial court procurement practices.

Supporting Documents:

- ***Attachment A***—Audit report #2020-301: Judicial Branch Procurement

Background:

Section 19210 of the Public Contract Code requires the State Auditor’s Office to audit the procurement practices of five trial courts biennially. These audits focus on whether the selected trial courts were compliant with the *Judicial Branch Contracting Manual* and other applicable procurement criteria.

The State Auditor reviewed procurement activity from fiscal year 2019-20 for the following five courts:

- Alameda
- Contra Costa
- Lake
- Orange
- San Bernardino

Summary of Audit Results and Discussion:

The State Auditor concluded overall that the five courts “...adhered to most of the required and recommended procurement and contracting practices that we evaluated...” However, the State Auditor noted issues in the following three areas:

- Vendor Payment Authorization

- Court Reporting to State Auditor of Contracts > \$1 Million
- Suggested Improvements to Local Court Contracting Manuals

A summary for each item is provided below.

Vendor Payment Authorization Issues:

Three-Point Match Process

- Alameda – The audit reviewed 18 payments totaling \$1.5 million and took issue with two payments (collectively valued at \$16,000). For these two items, the court did not match vendor invoices to supporting documentation (i.e. the “3-point match” process). The FIN Manual requires this control to ensure—prior to payment—vendor invoices are consistent with the terms of the underlying contract and there is confirmation of goods received (or services provided). At Alameda, a division director approved two payments that exceeded the payment rates established in the contracts. The contracts were for legal representation and allowed for reimbursement above the contracted rate only if the court pre-approved the attorneys’ extraordinary expenses. The Court lacked documentation demonstrating it had approved the \$16,000 in extraordinary expenses.

Signing Authority When Approving Payment

- Alameda- Nine court employees exceeded their signing authority when approving 13 of the 18 payments tested. These employees exceeded their signing authority by amounts ranging between \$1,300 and \$317,000. Section 6.2.3 of the FIN Manual requires courts to establish and maintain an authorization matrix that lists employees who are authorized to approve invoices for payment (along with dollar amounts indicating the scope of their authority). The Court’s accounts payable manual requires the CEO to approve payments over \$10,000. The Court indicated that it would revise its invoice approval matrix and invoice approval signature cards.
- Orange – The audit reviewed 10 payments totaling \$533,000 and identified once instance when an employee approved an invoice of \$160,000 for legal services provided to low-income defendants. The Court’s rules generally require executive approval for all invoices exceeding \$50,000, but invoices pertaining to legal services for defendants are not reviewed by executive staff. The Court agreed to re-examine whether executive-level review of these invoices would be appropriate.

Segregation of Duties

- Lake – The audit reviewed 10 payments totaling \$133,000 and took issue with six payments (\$32,000). The audit finding focused on the CEO approving hardcopy invoices

for payment and then electronically “posting” those same payment transactions in the Phoenix accounting system. In its response, the Court agreed to consider the State Auditor’s finding but appropriately clarified how no single court employee can unilaterally initiate and approve payments to vendors.

Reporting Contracts > \$1 Million to State Auditor

Section 19204 of the Public Contract Code requires courts to notify the State Auditor of all contracts exceeding \$1 million within 10 business days of entering the contract. This reporting requirement does not apply to certain IT contracts or court construction contracts. The State Auditor noted that four courts did not report certain contracts entered into during 2019-20 as required by law. Specifically:

Alameda –four contracts collectively valued at \$20 million

Contra Costa – one contract valued at \$1.2 million

Orange – two contracts valued at \$5.5 million

San Bernardino – two contracts valued at \$12 million.

Section 12.2 of the Judicial Branch Contracting Manual discusses the reporting requirement to the State Auditor; however, court staff reported they were either unaware of the requirement or highlighted administrative errors in not reporting. All courts indicated they would take steps to improve their reporting procedures.

Suggested Changes to Local Court Contracting Manuals

Finally, the State Auditor noted that two courts (Alameda and Lake) lacked certain elements in their local court contracting manuals that are recommended by the Judicial Branch Contracting Manual. The JBCM suggests courts include procedures defining when legal review is required for contracts that are “high risk”, above a certain dollar threshold, and/or include contract provisions affecting legal risk.¹ The JBCM also suggests that local contracting manuals include a contract administration plan.² Such a plan would have courts define roles and responsibilities of certain staff to ensure: complete solicitation documentation; satisfactory vendor performance; and compliance with the terms of the contract and other legal requirements.

¹ JBCM, Chapter 8, Section 8.4(B) – Legal Review

² JBCM, Chapter 11, Section 11.2 – Contract Administration Plan



Judicial Branch Procurement

Courts Generally Met Procurement
Requirements, but Some Need to
Improve Their Payment Practices

January 2021

REPORT 2020-301





CALIFORNIA STATE AUDITOR

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January 14, 2021
2020-301

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by state law, my office conducted an audit of certain judicial branch entities' compliance with the requirements of the California Judicial Branch Contract Law (judicial contract law), Public Contract Code sections 19201 through 19210. The judicial contract law requires the Judicial Council of California (Judicial Council) to adopt and publish a *Judicial Branch Contracting Manual* (judicial contracting manual) that is consistent with the Public Contract Code and establishes the policies and procedures for procurement and contracting that all judicial branch entities, including superior courts, must follow.

This report concludes that the five courts we reviewed for this audit—the superior courts in Alameda, Contra Costa, Lake, Orange, and San Bernardino counties—adhered to most of the required and recommended procurement and contracting practices that we evaluated, but they could improve in certain areas. Specifically, three courts did not always follow required or recommended payment practices that help to safeguard public funds. For example, the Alameda court made \$16,000 in questionable payments because it did not match invoices to appropriate supporting documentation for two payments we reviewed. In addition, four courts have failed to consistently comply with state law requiring them to notify my office when they enter into high-value contracts, which limits my office's ability to identify in a timely and accurate manner contracts that may warrant review. Finally, two courts could improve their local contracting manuals by including certain information, such as a policy on legal review of contracts, that the judicial contracting manual recommends and the courts had no compelling reason to exclude.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

ELAINE M. HOWLE, CPA
California State Auditor

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SUMMARY

For this fifth biennial audit of the procurement and contracting practices of California superior courts, we reviewed the superior courts in Alameda, Contra Costa, Lake, Orange, and San Bernardino counties. We determined that these five courts adhered to most of the required and recommended procurement and contracting practices that we reviewed; however, they could make certain improvements to better ensure the responsible stewardship of public funds. We reviewed the selected courts' practices related to contracts, payments, and purchase card transactions for fiscal year 2019–20. This report concludes the following:

Three Courts Did Not Always Adhere to Payment Requirements or Recommendations

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We found that three courts did not always follow established payment procedures, increasing the risk of misusing public funds. The Alameda court made questionable payments totaling \$16,000 because it did not match invoices to appropriate supporting documentation for two of 18 payments we reviewed, and it routinely did not adhere to authorization limits for approving invoices. The Orange court also exceeded its authorization limit for one of 10 payments we reviewed, and the Lake court did not fully separate payment duties as recommended so that no one person is in a position to initiate or conceal errors or irregularities for six of 10 payments we reviewed. The courts whose purchase card transactions met our threshold for review (Contra Costa, Orange, and San Bernardino) generally used purchase cards appropriately. Many of the purchase card transactions we reviewed were emergency purchases related to the 2019 coronavirus disease pandemic and were exempt from competitive bidding requirements. The processes courts followed for these emergency transactions and the goods and services they purchased were reasonable.

Four Courts Failed to Consistently Report High-Value Contracts

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Some courts have not fully complied with state law that generally requires them to notify the California State Auditor's Office (State Auditor) within 10 business days of entering into contracts estimated to cost more than \$1 million. The Alameda court had four such contracts in fiscal year 2019–20 but did not notify us of any because it did not have sufficient policies and procedures in place for doing so. The Contra Costa, Orange, and San Bernardino courts did notify us about some high-value contracts they had in fiscal year 2019–20 but failed to notify us about others for various reasons, including

staff error, a gap in their notification procedures, or incorrect interpretation of the notification requirement. By not fully complying with the notification requirement, these courts have limited our ability to identify in a timely and accurate manner contracts that may warrant review.

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Two Courts Lack Recommended Information in Their Local Contracting Manuals

Two courts do not have information in their local contracting manuals that would help ensure that their staff members follow appropriate contracting processes. The Alameda and Lake courts each omitted from their local contracting manuals certain provisions that the *Judicial Branch Contracting Manual* (judicial contracting manual) recommends courts include. Specifically, the Alameda court did not identify requirements for legal review of contracts, and both the Alameda and Lake courts lacked a plan for administering contracts. Neither court had a compelling reason for not including the recommended information.

In addition, we reviewed a selection of contracts from each of the five courts to determine whether the courts followed required procurement and contracting practices. We found no reportable issues in this area.

Summary of Recommendations

Alameda, Lake, and Orange County Superior Courts

To ensure appropriate expenditures of public funds, the courts should follow required and recommended practices for approving invoices and separating payment duties.

Alameda, Contra Costa, Orange, and San Bernardino County Superior Courts

To comply with the requirements of state law, the courts should implement procedures to notify the State Auditor within 10 business days of entering into all contracts estimated to cost more than \$1 million and not exempt from the notification requirement.

Alameda and Lake County Superior Courts

To ensure staff members have sufficient guidance about appropriate contracting practices, the courts should include in their local contracting manuals information that the judicial contracting manual recommends.

Agency Comments

The courts generally agreed with our recommendations. The Orange and San Bernardino courts disagreed with certain aspects of our finding that they did not fully comply with the requirement to notify our office about high-value contracts.

Introduction

Background

The California Judicial Branch Contract Law (judicial contract law) went into effect in 2011. It generally requires all judicial branch entities to comply with the provisions of the Public Contract Code that are applicable to state agencies and departments and that relate to the procurement of goods and services. It also requires the Judicial Council of California (Judicial Council)—which is the policymaking body of the California court system responsible for ensuring the consistent, independent, impartial, and accessible administration of justice in the State—to create a contracting manual for all judicial branch entities, such as superior courts, and for these entities to adopt local contracting manuals.

The judicial contract law also imposes reporting requirements on judicial branch entities. Specifically, it requires that judicial branch entities notify the California State Auditor's Office (State Auditor) within 10 business days of all contracts for goods and services they enter into that involve a total cost estimated at more than \$1 million in value, with limited exceptions such as trial court construction contracts. The law further specifies that all administrative and information technology (IT) projects of the Judicial Council or the courts with a total cost estimated to exceed \$5 million are exempt from this reporting requirement and shall be subject to the review of the California Department of Technology. The law also requires the Judicial Council to submit semiannual reports to the Legislature and the State Auditor containing specified information about most of the judicial branch's contracting activities. The Judicial Council prepares the semiannual reports using information that judicial branch entities are responsible for providing to it.

In addition, and subject to legislative appropriation, the judicial contract law directs the State Auditor to audit judicial branch entities other than the Judicial Council every two years to assess their implementation of the judicial contract law. This is our fifth biennial audit report; in all, the five reports so far have covered procurement practices at 24 of the State's 58 superior courts since the judicial contract law went into effect in 2011. For this audit, we selected the superior courts in the counties of Alameda, Contra Costa, Lake, Orange, and San Bernardino. We audited two of our selected entities—the superior courts in the counties of Alameda and Orange—previously, in 2014 and 2012, respectively. As state law requires, we based our selection of the courts we examined on factors including, but not limited to, each court's size, total volume of contracts, previous audits or known deficiencies, and significant or unusual changes in management. Table 1 provides the relative size, workload data, and volume of expenditures of the five superior courts we selected for this audit.

Table 1
The Five Courts We Reviewed Varied in Size, Workload, and Volume of Expenditures

	COUNTY SUPERIOR COURT				
	ALAMEDA	CONTRA COSTA	LAKE	ORANGE	SAN BERNARDINO
Total expenditures, fiscal year 2019–20	\$110,398,000	\$62,951,000	\$4,800,000	\$207,031,000	\$145,752,000
Total contract payments, fiscal year 2019–20	\$19,196,000	\$16,401,000	\$1,675,000	\$35,465,000	\$25,920,000
Case filings, fiscal year 2018–19	224,000	112,000	10,000	410,000	287,000
Judges, total authorized positions as of June 30, 2019	73	38	4	127	73
Court employees, total authorized positions for fiscal year 2019–20	749	337	35	1,516	1,098

Source: The Judicial Council's *2020 Court Statistics Report*; the Judicial Council's *Semiannual Report on Contracts for the Judicial Branch* for July 1 through December 31, 2019, and for January 1 through June 30, 2020; and the superior courts' budget reports for fiscal year 2019–20.

Note: Data in this table are unaudited and rounded.

The Judicial Branch Contracting Manual

The judicial contract law requires the provisions of the *Judicial Branch Contracting Manual* (judicial contracting manual) to be substantially similar to those of the *State Administrative Manual* and the *State Contracting Manual* and to be consistent with the Public Contract Code. The *State Administrative Manual* is a reference resource for statewide management policy, and the *State Contracting Manual* provides the policies, procedures, and guidelines to promote sound business decisions and practices in securing necessary services for the State. The Public Contract Code contains, among other provisions, competitive bidding requirements for public entities. Competitive bidding requirements help to provide all qualified bidders with a fair opportunity to enter the bidding process, and to eliminate favoritism, fraud, and corruption in the awarding of public contracts. In addition to establishing procurement requirements consistent with the law, the judicial contracting manual also contains recommended procurement practices for courts. Although those provisions are not mandatory, the judicial contracting manual favors the use of recommended practices unless courts have good business reasons for deviating from those recommendations.

Consistent with the Public Contract Code, the judicial contracting manual generally requires judicial branch entities to secure competitive bids or proposals for each contract, with certain exceptions, as the text box shows. For example, state law and the judicial contracting manual exempt purchases under \$10,000 from competitive bidding requirements as long as a contracting entity determines that the price is fair and reasonable. State procurement

rules and the judicial contracting manual also do not require competitive bids on contracts for emergency purchases or contracts with governmental entities.

The judicial contracting manual also allows several types of noncompetitive procurements. Two types that judicial branch entities can use are sole-source procurements and certain leveraged procurement agreements (leveraged agreements), including state leveraged agreements. The judicial contracting manual defines a sole-source procurement as one in which an entity affords only one vendor the opportunity to provide goods or services after the entity shows appropriate justification for doing so. An entity may use a leveraged agreement to purchase goods and services from certain vendors on the same or substantially similar contract terms as those negotiated by the State or another entity without having to seek competitive bids. The Department of General Services administers some leveraged agreements for use by state agencies and local governments so that they may buy directly from suppliers through existing state contracts and agreements. The judicial contracting manual includes a process for using leveraged agreements, but it recommends that judicial branch entities consider whether they can obtain better pricing or terms by negotiating directly with vendors or soliciting competitive bids.

Judicial Purchases That Can Be Exempt From Competitive Bidding Requirements

- Purchases under \$10,000
- Emergency purchases
- Purchases from government entities
- Legal services
- Purchases through certain leveraged procurement agreements
- Purchases from business entities operating community-based rehabilitation programs
- Licensing or proficiency testing examinations
- Purchases through local assistance contracts
- Sole-source purchases
- Purchases from certified small businesses
- Purchases from disabled veteran business enterprises

Source: State law and the judicial contracting manual.

Three Courts Did Not Always Adhere to Payment Requirements or Recommendations

Key Points

- The Alameda, Lake, and Orange courts did not always follow required practices or recommended safeguards when making payments. As a result, each court increased its risk of improper payments, and the Alameda court made \$16,000 in questionable expenditures.
- The courts generally used purchase cards appropriately, and emergency purchase card transactions related to the 2019 coronavirus disease (COVID-19) also appeared to be appropriate and reasonable.

The Alameda, Lake, and Orange Courts Did Not Always Follow Payment Safeguards, Increasing the Risk of Improper Payments

Following proper procedures for processing payments, including reviewing the accuracy of invoices, establishing proper levels of approval authority (authorization limits), and separating invoice approval duties from payment duties, is critical for ensuring that courts use public funds appropriately. However, we found that three courts—Alameda, Lake, and Orange—did not always follow these safeguards, which increases the risk of improper payments. Specifically, the Alameda court made roughly \$16,000 in questionable payments in fiscal year 2019–20 because staff bypassed proper safeguards for approving invoices. According to the Judicial Council’s *Trial Court Financial Policies and Procedures Manual* (procedures manual), which the judicial contracting manual instructs courts to follow when processing payments, court staff must match invoices against appropriate supporting documentation, such as a contract, to ensure that the court is paying the vendor the correct rate for the goods or services provided. However, of the 18 payments (totaling approximately \$1.5 million) we reviewed at the Alameda court, a division director approved two payments that exceeded contracted rates by \$3,330 and \$12,690, respectively.¹ The two payments were for legal representation provided by private attorneys. Although the contracts allowed for expenses in excess of the contracted rates (extraordinary expenses) if attorneys submitted requests and the court approved them, the division director approved the payments without determining whether requests had been submitted and approved, and we found that the court had no record of approval for the extraordinary expenses it paid. The division director indicated that she did not request supporting documentation for the \$3,330 overpayment because she did not notice the discrepancy between the contracted rate and the invoice rate. For the \$12,690 overpayment, she approved the payment on the basis of the attorney’s declaration that he provided additional services, not documentation showing that the court approved the extraordinary expenses. Because the Alameda court did not

¹ For the five superior courts we reviewed, we began by reviewing 10 payments for each court. If we saw issues that warranted additional review of a court’s payment processes, we reviewed eight additional payments.

match the amounts vendors charged to appropriate supporting documentation in these two cases, it made payments that lacked justification.

The Alameda court also allowed staff to disregard their authorization limits when approving invoices. Specifically, the Alameda court's accounts payable manual identifies dollar limits up to which it authorizes court employees in certain positions to approve invoices for payment. Adhering to such authorization limits reduces the court's risk of making inappropriate payments, but the Alameda court frequently did not do so. For the 18 payments we reviewed, nine court employees approved 13 invoices that exceeded their authorization limits by amounts ranging from \$1,300 to more than \$317,000. According to the court's accounts payable manual, an executive, such as the court's executive officer, must approve any payments over \$10,000. However, 12 of the 18 payments we reviewed were for invoice amounts greater than \$10,000, and none of the 12 invoices received executive approval. Rather, managers and directors who had lower authorization limits generally approved the invoices. In one case, a nonsupervisory staff member with no authority to approve invoices did so for an invoice for more than \$317,000 from a vendor that collects debts owed to the court, without additional review from higher-level staff. The court's executive officer and the court's finance and facilities director explained that they intended the court to adhere to authorization limits when approving the contracts or other underlying agreements associated with these payments, not when approving invoices. However, the court's accounts payable manual clearly instructs staff to act within the scope of their authority when processing invoices, and both the executive officer and finance and facilities director agreed that they should do so.

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Nine court employees approved 13 invoices that exceeded their authorization limits by amounts ranging from \$1,300 to more than \$317,000.

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The Lake court increased its risk of making improper payments by not always fully separating payment duties. According to the procedures manual, courts must assign work in a manner that ensures that no one person is in a position to initiate or conceal errors or irregularities, and the judicial contracting manual recommends that different employees be responsible for approving invoices and preparing payments. However, for six of

the 10 payments we reviewed at the Lake court (accounting for approximately \$32,000 of the total \$133,000 in expenditures we reviewed), the court's executive officer approved invoices and also posted payments in the court's accounting system. The executive officer stated that this was because the court has limited staff and explained that a staff member other than herself initially entered payment information into the accounting system. Because two individuals were thus involved in payment duties, court staff members deemed this approach to separating those duties adequate. Yet, the executive officer still performed two payment duties, and a process that does not fully separate payment duties is inherently higher in risk than one that does. The court indicated that its risk is mitigated because a Judicial Council staff member provides quarterly review of the court's accounts. Nonetheless, it would be a good practice for the court to take mitigating actions of its own, and the court sometimes did so. For example, in two other instances we reviewed, the executive officer approved invoices and posted payments, but the court also documented secondary approval of the invoices by other staff members. We believe the court should consistently incorporate an additional safeguard such as this when it cannot fully separate payment duties.

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It would be a good practice for the Lake court to take mitigating actions of its own when it cannot fully separate payment duties.

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At the Orange court, we reviewed 10 payments totaling just over \$533,000 and identified one instance in which a staff member approved an invoice of more than \$160,000 for legal services without seeking executive approval. The court's accounts payable procedures manual directs accounts payable staff members to obtain approvals for invoices from managers, using a system that requires an additional level of approval by an executive for any payments exceeding \$50,000. However, a supervisor at the Orange court informed us that staff who specialize in reviewing court documents, including validating legal invoices (specialists), handle the approvals for certain invoices, such as those for payments to lawyers who provide legal representation for low-income defendants, and they do so outside of the system that requires a second level of approval for invoices totaling more than \$50,000. The reason that the court does not process legal invoices through the normal system is because of concerns about confidentiality, according to the court's chief financial and administrative officer.

Although the \$160,000 payment we reviewed was appropriate per the terms of the court's contract, the court bypassed a key safeguard and increased the risk of improper payments for this invoice and others that specialists handled. The chief financial and administrative officer agreed that the court should incorporate additional approvals for these types of invoices when they are for payments above a certain dollar limit, and he said he would have staff members look into finding a balance between confidentiality and appropriate safeguards.

The Courts Generally Conducted Purchase Card Transactions Appropriately

The courts whose purchase card transactions we reviewed generally used their purchase cards appropriately. The state-administered procurement card program, CAL-Card, is available to all superior courts, although they are also allowed to use other purchase cards. The Alameda, Contra Costa, Orange, and San Bernardino courts used CAL-Cards and other purchase cards, primarily for travel-related expenses; the Lake court did not use a purchase card. Proper safeguards over purchase cards help ensure that courts use public funds appropriately. When courts make payments that exceed approved transaction limits on purchase cards or do not follow judicial contracting manual policies, they may put public funds at risk. Because courts provide purchase cards so individuals can make purchases directly from vendors, the cards are subject to abuse if the courts do not strictly oversee their use.

We reviewed purchase card transactions at three courts—Contra Costa, Orange, and San Bernardino—because their total value of purchase card payments during fiscal year 2019–20 met our threshold for reviewing individual transactions. The total value of the Alameda court's purchase card payments did not meet our threshold for reviewing individual transactions. The purchases we reviewed generally complied with applicable requirements. We reviewed six transactions at each of the three courts, focusing on purchases that exceeded the \$1,500 transaction limit established in the judicial contracting manual. The judicial contracting manual allows courts to deviate from that limit but recommends that they document alternative procedures, such as setting different transaction limits, in their local contracting manuals. The Contra Costa and San Bernardino courts adopted the judicial contracting manual's limit of \$1,500, although they had procedures allowing approval of higher purchase limits in certain cases. The Orange court's local contracting manual set higher transaction limits ranging from \$5,000 to \$25,000 for certain staff members, which the court's chief financial and administrative officer deemed reasonable given the court's size and its business needs.

All transactions we reviewed appeared to be reasonable and had appropriate supporting documentation, such as purchase request approvals and receipts for goods.

The purchases we reviewed generally complied with applicable requirements.

Emergency Purchase Card Transactions Related to COVID-19 and Exempt From Competitive Processes Appeared to Be Reasonable

In March 2020, the Governor proclaimed a state of emergency in California to address the global COVID-19 outbreak. Because the state of emergency began during our audit period of fiscal year 2019–20, many of the purchase card transactions we reviewed were for goods such as hand sanitizer or protective equipment. Most of these purchases were under \$10,000 in value, which is the threshold at which state law and the judicial contracting manual's competitive bidding requirements typically apply. Regardless of the value of a good or service, state law and the judicial contracting manual also exempt contracting entities from competitive bidding requirements when they make emergency purchases that are necessary for the immediate protection of life, health, property, or essential public services. The urgency of the courts' COVID-19 related purchases, the possibility of increased prices for high-demand goods, and the potential deviation from certain standard purchasing requirements together introduced additional risk for the misuse of public funds.

Despite the increased risk, the COVID-19 related purchases we reviewed appeared to be appropriate. We identified 12 purchases related to COVID-19 among the 18 purchase card transactions we reviewed for the Contra Costa, Orange, and San Bernardino courts. These 12 purchases totaled approximately \$65,000. The courts made the purchases from March through June 2020 to obtain goods including hand sanitizing supplies, face masks, and electronic equipment for a virtual courtroom. In each case we reviewed, the courts had documentation showing the approval of the purchase request and the receipt of a good for which the court had a reasonable need due to the public health emergency.

Recommendations

Alameda County Superior Court

To ensure that it expends public funds appropriately, the court should immediately require staff to match invoices to appropriate supporting documentation and to adhere to the established authorization limits when approving invoices.

Lake County Superior Court

To reduce the risk of improper payments, by July 1, 2021, the court should revise its payment process to incorporate an alternative safeguard in any instance when it is not practical to fully separate payment duties.

Orange County Superior Court

To ensure appropriate approval of all payments, by July 1, 2021, the court should revise its payment process to consistently require two levels of approval for all invoices above a certain dollar limit.

Four Courts Failed to Consistently Report High-Value Contracts

Key Points

- Although state law generally requires that a court notify the State Auditor of a contract with a total estimated cost of more than \$1 million, the Alameda court failed to comply with this requirement and did not report four such contracts that it entered into during fiscal year 2019–20 worth approximately \$20 million combined.
- During fiscal year 2019–20, the Contra Costa, Orange, and San Bernardino courts all failed to report five required contracts worth nearly \$19 million combined.

The Alameda Court Failed to Report Contracts Worth Approximately \$20 Million

The Alameda court did not comply with the legal requirement to report certain contracts. As we discuss in the Introduction, the judicial contract law requires courts to notify the State Auditor in writing within 10 business days of entering into a contract with a total cost estimated at more than \$1 million; the law excludes only IT projects valued at more than \$5 million that are subject to review and recommendations by the California Department of Technology and certain contracts related to trial court construction. The Alameda court had four contracts in fiscal year 2019–20 that it should have reported to us, but failed to do so. The contracts, which were for services such as janitorial services, ranged in value from \$2 million to approximately \$12.3 million and together were worth approximately \$20 million. In addition to not complying with the law, the court's failure to notify our office about its high-value contracts as required limits our ability to assess in an accurate and timely manner whether the court's contracts warrant review.

The Alameda court's director of finance and facilities, who oversees its contracting activities, acknowledged that the court did not notify our office about contracts over \$1 million in estimated value because it did not have procedures in place to do so and because of a lack of knowledge and training for individuals responsible for handling the notifications. The judicial contracting manual details the notification requirement, and the Alameda court also included information about it in a version of its local contracting manual that was effective through January 2020. However, the director of finance and facilities explained that the court later revised its local contracting manual and inadvertently omitted that information from its current local contracting manual. After we discussed this finding with the Alameda court, the court began adding procedures for identifying and reporting contracts over \$1 million to its process for reviewing contracts, consistent with state law and the judicial contracting manual.

The Contra Costa, Orange, and San Bernardino Courts Did Not Consistently Report All High-Value Contracts

Although the other three courts that had contracts valued at over \$1 million during fiscal year 2019–20 were aware of the notification requirement and reported certain high-value contracts to our office, the Contra Costa, Orange, and San Bernardino courts did not do so in all cases where the law required it. The Contra Costa court notified us about one high-value contract, the Orange court notified us about two, and the San Bernardino court notified us about three such contracts. However, the Contra Costa court failed to inform us about one contract worth \$1.2 million, and the Orange and San Bernardino courts each failed to inform us about two contracts that were worth \$5.5 million for the Orange court and nearly \$12 million for the San Bernardino court.

The Contra Costa court failed to report a contract for IT services provided by the county of Contra Costa that was worth \$1.2 million in fiscal year 2019–20. According to the analyst responsible for notifying our office of such contracts, the court did not notify us in this circumstance because the court's contractual agreement with the county was originally established in 1998, and the notification requirement in state law became effective in 2011. However, the law applies to contracts entered into or amended from October 1, 2011 on. The court entered into a new contract with the county in 2016 that replaced the 1998 contract. This contract was therefore subject to the legal requirement, and by failing to notify our office, the court did not comply with the law.

Similarly, the Orange court failed to comply with state law when it did not report one IT contract valued at \$1.2 million that it entered into during fiscal year 2019–20 and one legal services contract that was worth \$4.3 million in fiscal year 2019–20. The court's chief financial and administrative officer stated that the court uses an automated reporting process to notify our office of contracts that qualify for reporting, and the lack of reporting for the IT contract was due to a gap in the automated process. He stated that because the court entered into the IT contract based on an existing state contract, it did not process this contract in the typical way and therefore did not enter the contract into a system that automatically issues notifications to our office. In addition, the court's contracts and procurement manager explained that the court did not notify us about the legal services contract because a staff member made an error entering contract information into the system. The court's chief financial and administrative officer explained that the court will refine and implement appropriate processes and systems to ensure that our office is notified about any contracts valued above \$1 million.

Additionally, the San Bernardino court incorrectly exempted two high-value contracts from the notification requirement in state law. Specifically, the court failed to report two contracts for medical benefits plans worth \$7 million and \$4.9 million that it entered into during fiscal year 2019–20. The contracts and procurement manager at the court explained that the court had relied on direction that it received in response to a question a court staff member asked a Judicial Council staff member in 2013, which the court misinterpreted as excluding contracts for services such as medical benefits plans from the notification requirement in the judicial contract law. The manager indicated that the court now properly understands the requirement and stated that it will immediately begin notifying our office of these types of contracts when their estimated value is more than \$1 million.

Recommendation

Alameda, Contra Costa, Orange, and San Bernardino County Superior Courts

To comply with the requirements of state law, each court should immediately implement policies and procedures for notifying the State Auditor within 10 business days of entering into all contracts with estimated values over \$1 million, except those contracts exempted from the notification requirement in state law.

Two Courts Lack Recommended Information in Their Local Contracting Manuals

Key Points

- The Alameda court's local contracting manual lacked certain information recommended by the judicial contracting manual. Specifically, the court failed to include a legal review policy and contract administration plan in its local contracting manual.
- The Lake court also did not include the recommended contract administration plan in its local contracting manual.

The Alameda Court Did Not Include a Legal Review Policy in Its Local Contracting Manual

Although all five courts met the requirements for local contracting manuals, two courts did not include some information recommended by the judicial contracting manual. Local contracting manuals serve to supplement the judicial contracting manual. They provide specific details on procurement policies and procedures for each court in order to familiarize court employees with the court's specific purchasing and contracting practices. The judicial contracting manual requires that the court's local contracting manual contain certain information, such as the court's organizational structure, including the individuals with responsibility and authority for procurement activities. In addition to the required information, the judicial contracting manual recommends that a local contracting manual should contain some additional information unless a court has a good business reason for excluding it. However, two courts did not follow certain recommendations or provide a compelling reason for disregarding the judicial contracting manual's guidance.

The Alameda court's local contracting manual did not establish clear guidelines for when staff should submit contracts for legal review (legal review policy). The judicial contracting manual recommends that courts adopt a legal review policy, and it provides circumstances in which courts should require legal review of contracts. For example, courts should require legal review of contracts that provide for the performance of high-risk activities, such as operating heavy equipment. However, the current version of the Alameda court's local contracting manual does not include a legal review policy. The court's executive officer explained that this is because the court may not be able to obtain legal review promptly. The judicial contracting manual provides that courts can arrange for legal review of their contracts through in-house legal staff, retained counsel, or the Judicial Council's Legal Services office. The court's executive officer explained that the court sometimes seeks legal review from one of its staff attorneys but prefers to rely on the Judicial Council. He expressed concern that the Judicial Council can have a backlog of legal review requests from multiple entities and that legal review can sometimes be delayed as a result, so formally documenting requirements for legal review of contracts could potentially hold the court to standards that would be difficult to uphold in practice. However, the executive officer was unable to demonstrate that

such a backlog had prevented the court from obtaining legal review in a timely manner. Therefore, we believe the court's reason for not having a recommended legal review policy is inadequate, and the executive officer indicated that the court is open to adding a legal review policy in its local contracting manual.

The Alameda and Lake Courts Did Not Include a Contract Administration Plan in Their Local Contracting Manuals

Neither the Alameda nor the Lake courts included a recommended plan for administering contracts (contract administration plan) in their local contracting manuals. The purpose of such a plan is to detail the court's contract administration practices and establish clear lines of authority for the management and conduct of contract administration functions—information that should help staff members perform their duties appropriately. For example, the San Bernardino court's local contracting manual refers to the judicial contracting manual's guidance on contract administration; it then supplements that guidance with additional information, such as clarifying that the staff member who fulfills the role of contract administrator is responsible for notifying the State Auditor of high-value contracts. The director of finance and facilities at the Alameda court stated that the contract administration plan was inadvertently omitted from the current local contracting manual during revision and, as we described above, she attributed the court's failure to notify our office of high-value contracts in part to a lack of knowledge on behalf of the responsible individuals. A contract administration plan that addressed contract administration practices and management could have prevented this lack of knowledge. The director of finance and facilities agreed that it is a good practice to include the contract administration plan in the local contracting manual, as the judicial contracting manual recommends, and said the court will do so.

An administrative services manager at the Lake court explained that the court did not include a contract administration plan in its local contracting manual because the court has a very limited number of staff members involved with contract administration activities and including such a plan is not a mandatory provision. However, having a contract administration plan as recommended by the judicial contracting manual could help the court ensure that knowledge of those activities transfers effectively when staff members transition in or out of key roles, particularly if a transition should occur unexpectedly. The Lake court's executive officer stated that the court would review the judicial contracting manual and consider updating the local contracting manual to incorporate the recommended contract administration plan.

Recommendations

Alameda County Superior Court

To ensure appropriate administration and review of its contracts, by July 1, 2021, the court should revise its local contracting manual to include a contract administration plan and legal review policy, as recommended by the judicial contracting manual.

Lake County Superior Court

To ensure appropriate administration of its contracts, by July 1, 2021, the court should revise its local contracting manual to include a contract administration plan, as recommended by the judicial contracting manual.

OTHER AREA WE REVIEWED

To address the audit requirements contained in the judicial contract law, we also reviewed a selection of each court's contracts to assess whether each court complied with applicable requirements. Table 2 shows the results of our review.

Table 2
Other Area We Reviewed as Part of This Audit

The Courts We Reviewed Generally Complied With Other Procurement and Contracting Requirements

We reviewed a selection of contracts for each court to determine whether the courts adhered to requirements for awarding contracts. We examined 50 contracts (10 from each court) that were active during fiscal year 2019–20 and were worth approximately \$84 million in total value. We determined that all five courts met procurement and contracting requirements set forth in the judicial contracting manual and each court's local contracting manual. Courts competitively awarded 48 percent of the contracts we reviewed, totaling \$45 million in value. For all such contracts, the courts either achieved competition by securing multiple bids or made a reasonable effort to achieve competition by advertising the contracting opportunities. The remaining contracts we reviewed, worth \$39 million, were noncompetitive. For those contracts, the courts met applicable requirements from the judicial contracting manual, such as documenting the justification for using a sole-source procurement to obtain goods or services from only one vendor.

We conducted this audit in accordance with generally accepted government auditing standards and under the authority vested in the California State Auditor by Government Code 8543 et seq. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
California State Auditor

January 14, 2021

APPENDIX

Scope and Methodology

We conducted this audit pursuant to the audit requirements contained in the judicial contract law. Our audit focused on the superior courts in Alameda, Contra Costa, Lake, Orange, and San Bernardino counties. The Table below lists the audit objectives and the methods we used to address them.

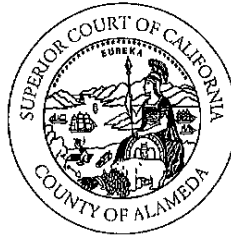
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<p>Reviewed relevant state law and the judicial contracting manual, as well as each court's policies and procedures.</p>
<p>2 Based on risk factors specified in the judicial contract law, identify five judicial branch entities, excluding the Judicial Council, for audit to assess their implementation of the judicial contract law.</p>	<p>Evaluated all 58 California superior courts and ranked them based on the following: significant changes that have occurred since 2018 that may impact compliance with the judicial contract law; the amount of time since they were last audited by our office or the Judicial Council and previous audit results or known deficiencies; significant changes in management or employee turnover; the complexity and size of the courts and their existing contracting practices and procedures; the volume and type of procurements made by the courts relative to total judicial branch procurements and to county populations; and substantial changes to the number and amount of total procurements from fiscal years 2018–19 to 2019–20.</p>
<p>3 For the five superior courts selected for this audit, perform the following:</p> <ol style="list-style-type: none"> Determine whether each court has developed its own local contracting manual and assess its conformance to the judicial contracting manual. Assess each court's compliance with key safeguards related to procurement and contracting in the judicial contracting manual and its local contracting manual, including those related to competitive bidding, sole-source contracting, and payment and deliverable review and oversight. Evaluate each court's contracts to determine whether it may have inappropriately split contracts to avoid obtaining necessary approvals or compliance with competitive bidding requirements. Review the appropriateness of each court's CAL-Card or other court-issued purchase card transactions when the value of those transactions meets a certain threshold. 	<ul style="list-style-type: none"> Obtained versions of each court's local contracting manual that were applicable during fiscal year 2019–20 and assessed whether the local contracting manuals conformed to the judicial contracting manual's requirements and recommendations. Based on factors including contract value and type of goods or services procured, judgmentally selected 12 contracts for each court that were active in fiscal year 2019–20 using the Judicial Council's <i>Semiannual Report on Contracts for the Judicial Branch</i> (semiannual report) for fiscal year 2019–20 or, for the Lake court, the court's ad hoc report of contracts active during that period. Based on factors including payment value, judgmentally selected 18 payments for each court (12 payments associated with the contracts we selected and six not associated with those contracts) using a fiscal year 2019–20 payment report provided by each court. To gain assurance that data used to select contracts and payments were complete, traced source documents to the reports we used for selection. Determined the payment reports were generally complete, although we could not trace source documents to the Orange court's payment report because the Orange court does not maintain paper payment records. Determined the semiannual reports were generally complete for the Alameda, Contra Costa, Orange, and San Bernardino courts but incomplete for the Lake court. Obtained an alternative data source, the Lake court's ad hoc report of contracts, to mitigate the risk of selecting contracts from incomplete data.

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AUDIT OBJECTIVE	METHOD
	<ul style="list-style-type: none"> • For each court, reviewed 10 contracts and 10 payments (six associated with contracts we selected and four not associated with those contracts) against key requirements and safeguards identified in our review of the judicial contracting manual, local contracting manual, and other relevant policies and procedures. Followed up with court staff to determine the cause of any exceptions. • If exceptions in the first 10 items warranted further review of a court's contract or payment processes, reviewed additional items. Reviewed 10 contracts for each of the five courts; 10 payments for the Contra Costa, Lake, Orange, and San Bernardino courts; and 18 payments for the Alameda court. • For each court, used the semiannual reports and the court's list of active contracts to identify contracts newly valued over \$1 million in fiscal year 2019–20. For any such contracts, reviewed the contracts and courts' documentation of notifications sent to our office. In cases where the courts did not notify us of the contracts as required, interviewed court staff to obtain information about why we were not notified. • Used the semiannual reports and the Lake court's ad hoc contract report to identify instances when courts may have split contracts. For the identified instances, we evaluated additional information, such as payment reports and contract documents, to identify whether a court entered into contracts with the same vendor for similar goods or services during the same time frame for the purposes of avoiding competitive bidding. Determined there was no evidence indicating that any of the five courts split contracts. • Determined whether each court used purchase cards and reviewed monthly purchase card statements for transactions that appeared questionable based on the amount or vendor. Based on factors including transaction value, reviewed a judgmental selection of six transactions at each of the three courts whose total value of fiscal year 2019–20 purchase card transactions met our threshold for review. For the selected transactions, reviewed purchase requisitions and receipts, and interviewed court staff to further assess any transactions that appeared questionable.

Source: Analysis of state law and information and documentation identified in the column titled Method.

**SUPERIOR COURT OF CALIFORNIA, COUNTY OF ALAMEDA**

Executive Office

René C. Davidson Courthouse • 1225 Fallon Street, Oakland, CA 94612

(510) 891-6012

TARA M. DESAUTELS
*Presiding Judge***CHAD FINKE**
*Executive Officer***ELIZABETH ERICKSON**
Assistant Executive Officer

December 16, 2020

Elaine M. Howle, CPA *
California State Auditor
621 Capitol Mall, suite 1200
Sacramento, CA 95814

Dear Ms. Howle,

The Superior Court of California, County of Alameda (Court) has reviewed the findings and recommendations included in the California State Auditors draft report titled "Judicial Branch Procurement: Courts Generally Met Procurement Requirements, But Some Need to Improve Their Payment Practices,". The Court agrees with the recommendations contained in the report and has provided our response to the recommendations, as detailed below.

Recommendation:

To ensure that it expends public funds appropriately, the court should immediately require staff to match invoices to appropriate supporting documentation and to adhere to the established authorization limits when approving invoices.

Alameda Court Response:

The Court intends to revise its invoice approval authorization limit matrix and update to our invoice approval signature cards, accounts payable staff desk manual, and the local contracting manual, as appropriate.

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Additionally, a revision will be made to invoice code strips to include accounts payable staff verification and acknowledgement of invoice and supporting documentation matching prior to payment processing.

* California State Auditor's comment appears on page 29.

January 2021

Elaine M. Howle
December 16, 2020
Page 2

Recommendation:

To comply with the requirements of state law, each court should immediately implement policies and procedures for notifying the State Auditor within 10 business days of entering into all contracts with estimated values over \$1 million, except those contracts exempted from the notification requirement in state law.

Alameda Court Response:

The Court has amended its contract review form to identify contracts valued over \$1 million and has begun to notify the State Auditor of contracts meeting the threshold in compliance with state law. The local contract manual will also be revised to include information about the notification requirement, as this was inadvertently omitted from the most recent version of the local contract manual.

Recommendation:

To ensure appropriate administration and review of its contracts, by July 1, 2021, the court should revise its local contracting manual to include a contract administration plan and legal review policy, as recommended by the judicial contracting manual.

Alameda Court Response:

The Court will revise its local contract manual to include a contract administration plan and legal review policy.

We would also like to thank your staff for the professional, respectful, and courtesy manner in which they conducted themselves when working with our staff, during the audit process.

Sincerely,



Chad Finke,
Court Executive Officer

cc: Hon. Tara M. Desautels, Presiding Judge
Elizabeth Erickson, Assistant Executive Officer
Melanie Lewis, Finance & Facilities Director

COMMENT

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE SUPERIOR COURT OF CALIFORNIA, COUNTY OF ALAMEDA

To provide clarity and perspective, we are commenting on the Alameda court's response to our audit. The number below corresponds to the number we have placed in the margin of the Alameda court's response.

The Alameda court's intention to revise and update its authorization limits does not address our concern that it has not required staff to adhere to authorization limits when approving invoices. As noted on page 10, we found that despite having established authorization limits in place for approving invoices, the court allowed staff to disregard these authorization limits when approving invoices. Such actions undercut the court's management controls designed to reduce its risk of making inappropriate payments. Instead, the court should take steps to ensure that court staff adhere to authorization limits when approving invoices.

①

January 2021

Superior Court of California

COUNTY OF CONTRA COSTA
725 COURT STREET
P.O. BOX 911
MARTINEZ, CA 94553-0091



December 14, 2020

Ms. Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle,

Thank you for the opportunity to review and respond to the draft audit report titled *Judicial Branch Procurement: Courts Generally Met Procurement Requirements, But Some Need to Improve Their Payment Practices*. The Contra Costa Superior Court (Court) is responding to the following recommendation:

To comply with the requirements of state law, each court should immediately implement policies and procedures for notifying the State Auditor within 10 business days of entering into all contracts with estimated values over \$1 million, except those contracts exempted from the notification requirement in state law.

We agree with the above recommendation. The Court already has a process in place to track the value of its contracts in order to notify the State Auditor whenever a contract exceeds \$1 million, or the total value of a contract and subsequent amendments reaches \$1 million. The report identified one Memorandum of Understanding (MOU) with the County of Contra Costa (County) for over \$1 million that was not notified. We entered into this MOU in 2016 to detail out the terms and conditions for information technology services that the County has continued to provide after the Court separated from the County as a result of the Lockyer-Isenberg Trial Court Funding Act of 1997. The Court will update its tracking process to include the tracking of MOUs to ensure notification to the State Auditor when the total value of purchase orders issued or to be issued against MOUs exceeds \$1 million or is estimated to exceed \$1 million. We plan to complete this process update by February 28, 2021.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kate Bieker".

Kate Bieker, Court Executive Officer
Superior Court of California, County of Contra Costa

cc.

Hon. Barry Baskin, Presiding Judge
Superior Court of California, County of Contra Costa

January 2021



Superior Court

MICHAEL S. LUNAS

State of California

County of Lake

255 N. Forbes Street

KRISTA D. LEVIER

December 16, 2020

Elaine M. Howle, CPA *
 California State Auditor
 621 Capitol Mall, Suite 1200
 Sacramento, CA 95814

Re: Response to Draft Audit Report

The Superior Court of California for the County of Lake (Court) has reviewed your draft audit report pertaining to our procurement and contracting practices. The audit is required by the Public Contract Code and the Court greatly appreciates the professionalism and work of the audit team. The Court is pleased with the draft report's overall positive conclusion that the Court generally met procurement requirements, as evidenced by the limited number of audit findings. The State Auditor's draft report provides the Court with two recommendations, which are addressed below.

Recommendation #1 – Segregation of Duties

During its fieldwork, the audit team reviewed a sample of invoices and resulting payments to vendors for various contracts and purchase orders. The draft report takes issue with the Court's segregation of duties when processing and ultimately approving these payments. Specifically, the audit team notes that the individual who approves an invoice for payment also approves the equivalent entry in our Phoenix accounting system through the "posting" of the transaction. The Court will carefully consider the audit team's recommendation to further segregate these functions and will consult with the Judicial Council's accounting and procurement staff when deciding on any corrective action that is necessary.

For context and clarity, the Court has already segregated the duties for many of its key purchasing and accounting activities prior to the audit. For example, the Court has different

* California State Auditor's comment appears on page 35.

January 2021

- ① individuals who: (1) initiate purchase requisitions and confirm the receipt of goods, (2) match vendor invoices to the pricing and terms of the relevant contract or purchase order, and (3) ultimately approve payments to vendors. Importantly, the individual approving payment—the focus of this audit finding— does not maintain the master vendor file in the accounting system and thus cannot create fictitious vendors. Further, the payment approver can only approve accounting transactions entered by someone else and cannot both self-initiate (i.e. “park”) a transaction and then approve (“post”) it on her own. The Court believes its current internal control structure significantly limits the risk of any single individual creating or concealing payment errors. Nevertheless, the Court welcomes the audit team’s observations as an opportunity to further review and potentially enhance its internal controls.

Recommendation #2 – Local Contracting Manual

Section 19206 of the Public Contract Code requires the Judicial Council to adopt a *Judicial Branch Contracting Manual* and for the Court to similarly develop a local contracting manual that is consistent with state law and is substantially similar to the provisions contained in the *State Administrative Manual* and *State Contracting Manual*. The audit team recommends that the Court update its local contracting manual to include a contract administration plan in order to ensure staff have sufficient guidance on duties related to the management and administration of contracts. The Court agrees with the recommendation and intends to update its local manual on or before July 1, 2021.

Again, the Court and its management team appreciates the work of the State Auditor’s staff and views the audit as an important tool for transparency and for promoting continual improvement in our procurement practices. Please feel free to contact me at (707) 263-2575 should you have any questions regarding the Court’s response.

Sincerely,



Krista D. Levier
Court Executive Officer

COMMENT

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE SUPERIOR COURT OF CALIFORNIA, COUNTY OF LAKE

To provide clarity and perspective, we are commenting on the Lake court's response to our audit. The number below corresponds to the number we have placed in the margin of the Lake court's response.

The Lake court's response indicates that the court believes it has significantly limited its risk through its current approach to segregation of payment duties, but as we indicate beginning on page 10 in the report, the executive officer still performed two payment duties, and a process that does not fully separate payment duties is inherently higher in risk than one that does. Further, although the court did include additional safeguards in some instances, it did not consistently do so. Therefore, to further reduce the risk of making improper payments, the court should consistently incorporate an additional safeguard when it cannot fully separate payment duties.

①



Superior Court of California

County of Orange

DAVID YAMASAKI
COURT EXECUTIVE OFFICER
CLERK OF THE COURT
JURY COMMISSIONER

700 CIVIC CENTER DRIVE WEST
SANTA ANA, CALIFORNIA 92701
PHONE: 657-622-7017

December 16, 2020

Elaine M. Howle, CPA *
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Orange County Superior Court's Written Response to "Judicial Branch Procurement: Courts Generally Met Procurement Requirements, But Some Need to Improve Their Payment Practices" Report 2020-301

Dear Ms. Howle:

This letter is the Orange County Superior Court's written response to the "Judicial Branch Procurement: Courts Generally Met Procurement Requirements, But Some Need to Improve Their Payment Practices" Report 2020-301 received from you on December 10, 2020.

The Orange County Superior Court ("Orange Court") values strategic planning, careful execution, and regular monitoring and adjustments through extensive use of data analytics. Our comprehensive approach has many checks and balances and internal controls that help to not only minimize the risk of inappropriate use of funds, but more importantly, ensure optimal use of funds that are well aligned with the Orange Court's strategic goals and mission.

The Orange Court's strategic goals include enhancing access and use of data-driven decision making for continuous improvement. The audit conducted by the California State Auditor's office of our procurement practices was helpful in reviewing our existing processes and internal controls, consistent with our goal of continuous improvement. It is important to note that the areas audited is a subset of a continuum of end-to-end internal controls and monitoring process utilized by the Orange Court that includes strategic planning, budget development, expenditure monitoring, project ideation and prioritization, resource allocation, procurement, automated work flow purchase approvals, and extensive use of interactive dashboards:

- 1) The Orange Court has an extensive strategic planning process that is the foundation for the annual budget and expenditure plan, which is developed with input from approximately 65 cost center managers with review and approval from the Orange Court's executive management team, finance committee, executive committee, and the Presiding Judge.
- 2) The annual expenditure plan is routinely monitored by cost center managers through interactive Power BI dashboards that integrate near real time information from the State's SAP Financial System.
- 3) These expenditures are also monitored by a dedicated team of budget analysts who work closely with the cost center managers.

* California State Auditor's comments appear on page 41.

Superior Court of California

County of Orange

December 16, 2020

Page 2

- 4) In addition, a monthly dashboard of the budget, actuals to date, variances, and revised budget projection is shared by the Chief Financial and Administrative Officer with the executive management team and the Presiding Judge (PJ) and Assistant Presiding Judge (APJ).
- 5) These interactive dashboards are available on the Orange Court's intranet site to all cost center managers, executive management team, and PJ / APJ.
- 6) Coupled with this process, the Orange Court has developed an in-house invoice approval workflow process that has been in place since 2017. This workflow system ensures a stringent approval process and documents the entire invoice approval process.
- 7) The Orange Court also implemented a 3rd party portfolio management tool to capture project ideas and to track medium to large scale projects that typically involves a public bid process administered by our procurement team. This is in addition to the existing contract management system utilized by the Orange Court that automatically notifies the CA State Auditor's office of contracts above \$1 million when statutorily required.

I. The Orange Court Did Not Always Follow Payment Safeguards, Increasing the Risk of Improper Payments

The Orange Court concurs with the recommendation in the Report and will revise our payment process to consistently require two levels of approval for all invoices above a certain dollar limit. Generally, invoices greater than \$50,000 are approved by both a cost center manager and a department chief. The Orange Court developed and implemented an extensive accounts payable approval workflow process that has been in place for several years. This workflow system ensures a stringent approval process and documents the entire invoice approval process. The \$160,000 payment highlighted in the Report was an exception to our process that was put in place with Presiding Judge and executive management approval to balance confidentiality and timely payments for attorneys providing representation for children and families (juvenile dependency counsel). The Orange Court is committed to continuous improvement and will explore options to incorporate alternate defense billing invoices into our accounts payable approval process to ensure we have at least two approvals for any invoice above a certain dollar threshold.

II. Court Failed to Consistently Report High-Value Contracts

- ① The Orange Court concurs in part and rejects in part the State Auditor's conclusions and recommendations that the Orange Court failed to consistently report high-value contracts.
- ② The Orange Court acknowledges that it did not achieve 100% compliance in reporting all high-value contracts per state law as shown in the instance of 2 of the 10 contracts reviewed by the State Auditor, and that it should implement enhancements to its existing policies and procedures for notifying the State Auditor within 10 business days of entering all contracts with estimated values over \$1 million, except for those contracts exempted per state law.
- ③ However, the Orange Court rejects as inaccurate and unfair the characterization that it failed to consistently report high-value contracts per state law and should immediately implement policies and procedures for notifying the State Auditor within 10 business days of entering all contracts with estimated values over \$1 million when statutorily required. This description portrays the Orange Court as not complying time after time with the state law requirement to notify the State Auditor within 10 business days of entering all contracts with estimated values over \$1 million and operating without any policies or procedures for such compliance.

Superior Court of California

County of Orange

December 16, 2020

Page 3

The Orange Court added its automated K2 BSA notification workflow to its existing Contract Management Data System (CMDS) in 2012 to reduce its risk of noncompliance with the state law requirement that each court notify the State Auditor within 10 business days of entering a contract with an estimated value over \$1 million unless exempt per state law. The Orange Court's automated K2 BSA notification workflow requires Procurement Staff to enter the same contract information for all signed, written contracts into CMDS from SAP for the automated K2 BSA statutory notification to be sent to the State Auditor.

In the first instance where the State Auditor found that the Orange Court failed to report an IT purchase order contract valued at \$1.2 million entered in fiscal year 2019-20, this failure was due to an unintentional error in not entering the purchase order contract information into CMDS for the automated K2 BSA statutory notification to be sent to the State Auditor. The Orange Court had issued a purchase order on its form for this procurement per California Cooperative Agreement No. 7-14-70-04. As the Cooperative Agreement itself was the existing written contract, Procurement Staff did not draft and have a separate written contract signed. Since a separately signed, written contract did not exist for this purchase order, Procurement Staff did not process the purchase order information into CMDS in the typical way a separately signed, written contract would have been, and consequently, the K2 BSA system did not have the information to generate and send a statutory notification to the State Auditor. To reduce the risk of recurrence of such an instance, Orange Court Procurement has added the following narrative to its existing CMDS workflow process: "Enter all approved POs with an Overall Contract Value of more than \$1 million into CMDS, regardless of whether the Court signed a written contract for the PO so that the Court's automated system can send the requisite BSA Notice to the State Auditor."

In the second instance where the State Auditor found that the Orange Court failed to report a legal services contract worth \$4.3 million in fiscal year 2019-20, this failure was due to human error when entering the contract information into CMDS. The Orange Court is currently researching the implementation of appropriate process enhancements to further reduce the risk of human error that could result in noncompliance with the state law requirement to notify the State Auditor within 10 business days of entering a contract with an estimated value over \$1 million when statutorily required. This research includes the accessibility of exportable contract data from SAP and CMDS for review and comparison at regular intervals to verify compliance with the state law requirement.

Thank you for your time and consideration.

Sincerely,



David Yamasaki
Court Executive Officer

COMMENTS

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE SUPERIOR COURT OF CALIFORNIA, COUNTY OF ORANGE

To provide clarity and perspective, we are commenting on the Orange court's response to our audit. The numbers below correspond to the numbers we have placed in the margin of the Orange court's response.

The court's partial rejection of our conclusions and recommendations is inconsistent with both its acknowledgment that it did not notify us about all contracts as required by state law, and its indication that it will take additional action to ensure future compliance with the requirement. We stand by our conclusions and recommendations and provide further comments on the Orange court's response below.

The court's response that it did not achieve 100 percent compliance as shown in the instance of two of 10 contracts we reviewed indicates a misunderstanding of our work in this area. On page 16, we explain that the court notified of us about two high-value contracts that were subject to the requirement but did not notify us about another two. We reviewed the court's compliance with the legal requirement to notify us about high-value contracts by identifying such contracts in fiscal year 2019–20 contract reports we obtained from the Judicial Council and the court. This was in addition to and distinct from our review of a selection of 10 of the court's fiscal year 2019–20 contracts to determine whether the court adhered to requirements for awarding contracts, the results of which we summarize on page 23.

Our conclusion that the court failed to consistently report high-value contracts per state law is accurate and fair. We explain on page 16 that the court notified us about two such contracts but did not notify us about two others, which the court acknowledges in its response. Also, we do not state that the court was operating without any policies or procedures for complying with the notification requirement. Rather, as we describe on page 16, although the court was aware of the notification requirement and reported certain high-value contracts to our office, it did not do so in all cases for the reasons we note. Although the court does have policies and procedures in place for complying with the notification requirement, it needs to update its procedures to address the deficiencies we describe and ensure it notifies us about all contracts as required by law. We stand by our recommendation that it should do so.

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**Superior Court of California
County of San Bernardino**

NANCY CS EBERHARDT
Court Executive Officer and Clerk
Jury Commissioner

**247 West Third Street, Eleventh Floor
San Bernardino, CA 92415-0302**

(909) 708-8747

December 16, 2020

Elaine Howle, California State Auditor*
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

Thank you very much for the opportunity to review the draft audit report performed in accordance with Public Contracting Code (PCC) sections 19201 through 19210. The audit team was extremely professional, responsive, and courteous and the audit process went smoothly, despite the varied challenges presented by the COVID-19 (coronavirus) pandemic.

In response to the draft report, the Superior Court of California, County of San Bernardino (Court) respectfully submits some additional clarification regarding the reporting of two benefit contracts and disagrees with the finding. As stated in the draft report, the Court was working under prior direction and interpretation that benefit contracts did not need to be reported pursuant to section PCC 19204, as the code specifically references "goods and services." This interpretation was premised upon both the Judicial Council of California's staff guidance and a local understanding related to other requirements regarding benefits. ①

Benefit contracts are unique from other "services" provided under contract in that they are required as a condition of employment and subject to the terms of negotiated contracts with local labor unions. In the instance of both benefit contracts, the Court adhered to all local policies, procedures, and agreements with local labor unions. Also of note, the table presented as background information regarding the audit excludes these contract amounts as they are not included in the portion of the general ledger coding string for operating expenditures and equipment ("goods and services"); rather, they are included as part of employee benefit costs. The interpretation issue was related to "service", as benefits are required both locally per existing bargaining agreements and personnel policies and under California law. ②

* California State Auditor's comments appear on page 45.

January 2021

December 16, 2020
Page 2 of 2
CSA Audit Response

- ① Additionally, the Court would like to note that immediately upon being advised that the benefit contracts were included as part of PCC 19204 reporting requirements, they were reported to the California State Auditor, and the court adjusted its internal policies accordingly to ensure future compliance.

Respectfully,



Nancy CS Eberhardt
Court Executive Officer

NCSE: ks

COMMENTS

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE SUPERIOR COURT OF CALIFORNIA, COUNTY OF SAN BERNARDINO

To provide clarity and perspective, we are commenting on the San Bernardino court's response to our audit. The numbers below correspond to the numbers we have placed in the margin of the San Bernardino court's response.

It is unclear why the San Bernardino court states that it disagrees with our finding since it acknowledges that it has now notified our office about the medical benefit plans contracts in question, and has revised its policies to ensure future compliance with the notification requirement in state law. Moreover, as we describe on page 17, the court's contracts and procurement manager explained that the court had misinterpreted direction from a Judicial Council staff member about whether contracts for services such as medical benefit plans were subject to the notification requirement in state law, and she indicated the court now properly understands the requirement. The clarification the court provides in its response regarding its earlier misinterpretation does not alter our conclusion that it failed to consistently report high-value contracts as required by state law.

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State law establishes which contracts are subject to the notification requirement. As we describe on page 5, the law generally requires courts to notify our office of high-value contracts for goods and services and excludes only certain contracts from that requirement, such as trial court construction contracts. Of the exclusions provided in the law, there is no exception to the notification requirement related to contracts for medical benefit plans or for employment-related contracts that are required by state law. Further, the court did not cite any authority excluding these types of service contracts in its response. The table to which the court refers is unaudited background information obtained from reports provided by the Judicial Council. That information is not relevant to our finding that the court incorrectly exempted two contracts from the notification requirement set forth in state law.

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JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 03/10/2021

Action Item #2 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item** – Discuss and approve for public posting the State Controller’s audit of San Joaquin Superior Court.

Supporting Documents:

- ***Attachment B***—Audit report of San Joaquin Superior Court’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2017-18)

Background:

Section 77206(h) of the Government Code requires the State Controller’s Office to audit the revenues, expenditures, and fund balances of the superior courts. The annual budget act appropriates funding from the Trial Court Trust Fund to reimburse the State Controller for the costs of these audits.

Audit Summary:

The State Controller concluded that San Joaquin superior court complied with the governing statutes, rules, regulations, and policies for the revenues, expenditures, and fund balances under the court’s control.

Nevertheless, the audit did identify three audit findings as summarized below:

Posting of Revenue Transactions – The audit noted that the court incorrectly entered year-end accruals for enhanced collections revenue, mixing up the entries applicable to general ledger #821200 and #821201. The misclassifications were minor, and the Court’s financial records still showed the correct ending balance for enhanced collections since the two GL revenue accounts are ultimately combined. The Court agreed and noted that staff were in the process of physically moving, which disrupted

their normal end-of-year processes. The Court plans to include a secondary management review of prepared journal entries.

Expenditure Documentation – For one of 40 payment transactions reviewed, the court could not provide supporting documentation pertaining to an \$1,800 expense, (such as by producing a purchase order or requisition). The audit also noticed the lack of a purchase order for a \$420 purchase. The Court agreed with the finding.

Personnel Records – During its review of 30 court employees to test salary and benefit data, the court did not have personnel-action request forms on file. As a result, the SCO was unable to verify salary and employment data for these employees based on available court records. The SCO auditors recommended that the Court retain personal action forms (signed by the employee) to report appointments, changes in pay rates or position, and other miscellaneous changes such as separations. Use of the form would also allow employees to notify the Court's personnel office of erroneous information and to verify corrections or changes. The Court agreed with the finding.

**SUPERIOR COURT OF CALIFORNIA,
COUNTY OF SAN JOAQUIN**

Audit Report

**VALIDITY OF RECORDED REVENUES,
EXPENDITURES, AND FUND BALANCES**

July 1, 2017, through June 30, 2018



BETTY T. YEE
California State Controller

February 2021



BETTY T. YEE
California State Controller

February 9, 2021

Brandon E. Riley, Court Executive Officer
Superior Court of California, County of San Joaquin
180 E. Weber Avenue
Stockton, CA 95202

Dear Mr. Riley:

The State Controller's Office audited the Superior Court of California, County of San Joaquin (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, we noted weaknesses in the Court's internal controls over ledger entry, procurement processing, and human resource employee records. These issues are described in the Findings and Recommendations section of our report.

This report is for your information and use. The Court agreed with our observations and provided a letter of response, which is incorporated into this final report.

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

Sincerely,

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

MR/as

cc: Stephanie Bohrer, Assistant Court Executive Officer
Superior Court of California, County of San Joaquin
Linda Courtwright, Court Fiscal Officer
Superior Court of California, County of San Joaquin
DeEte Goni, Court Fiscal Manager
Superior Court of California, County of San Joaquin
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer and Director of Finance
Judicial Council of California
Grant Parks, Principal Manager
Audit Services
Judicial Council of California
Aaron Edwards, Assistant Program Budget Manager
California Department of Finance
Emma Jungwirth, Principal Program Budget Analyst
California Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of San Joaquin (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, in the course of testing, we noted weaknesses in the Court's internal controls over ledger entry, procurement processing, and human resource employee records. These issues are described in the Findings and Recommendations section of our report.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, established through Article IV of the Constitution of California. The Constitution charges the Judicial Council of California (JCC) with authority to adopt rules for court administration, practices, and procedures. The Judicial Council Governance Policies are included in the California Rules of Court. Trial courts are also required to comply with various other state laws, rules, and regulations, much of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, The Organization and Government of Courts.

Pursuant to California Rules of Court (CRC) Rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual*, which provides guidance and directives for trial court fiscal management. The manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. The manual is comprised of an internal control framework that enables courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability. Procurement and contracting policies and procedures are addressed separately in the *Judicial Branch Contracting Manual*, adopted by the JCC under Public Contract Code section 19206.

With respect to trial court operations, CRC Rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components form the core of subject matter of our audit.

The Trial Court Trust Fund is the primary source of funding for trial court operations. The JCC allocates monies in the Trial Court Trust Fund to trial courts. The Trial Court Trust Fund's two main revenue sources are the annual transfer of appropriations from the State's General Fund and maintenance-of-effort payments by counties, derived from their collections of fines, fees, and forfeitures.

In fiscal year (FY) 2017-18, the Court (County of San Joaquin) generated approximately 80.2% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 306 staff members to fulfill the operational and administrative activities necessary to serve San Joaquin County's population of 759,186. The Court incurred approximately \$42,388,604 million in expenditures for the period of July 1, 2017, through June 30, 2018. Of this amount, approximately 78.1% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, a Non-Grant Special Revenue Fund, and a Grant Special Revenue Fund. All funds had revenues and/or expenditures in excess of 4% of the Court's total revenues and expenditures and were each considered material and significant.

We performed the audit at the request of the JCC. The authority is provided by Interagency Agreement No. 38881, dated May 28, 2019, between the SCO and the JCC.

Objective, Scope, and Methodology

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

The audit period was July 1, 2017, through June 30, 2018.

Specifically, we conducted this audit to determine whether:

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

To accomplish our objective, we:

General Procedures

- Reviewed the *Judicial Council Governance Policies (November 2017)*, the Budget Act, the *Manual of State Funds*, applicable Government Code and California Rules of Court sections, the *Trial Court Financial Policies and Procedures Manual, (Eighth Edition December 2016)*, and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Controls

- Reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- Interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions.
- Reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- Evaluated electronic access controls and data reliability of the Court's financial system.
- Selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 40 revenue items and 100 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. If errors or questionable variances were identified, we tested additional items and did not project error rates to the account's population of transactions or its dollar value total.

We designed our testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our testing methodology and results are summarized below:

Revenue Testing

- We tested revenue transactions and account balances in the General Fund, the Grant Special Revenue Fund, and the Non-Grant Special Revenue Fund to determine whether revenue accounting was consistent with authorizing Government Code sections, properly supported by documentation, and recorded correctly in the accounting system.
- We tested balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$42,096,720 for FY 2017-18. The

sample consisted of 68 transactions selected to test both internal controls and account recording.

- We tested \$37,150,901 of \$42,096,720, or 88.3% of total revenues.

We found errors in the recording of transactions for enhanced collections at year-end. These identified errors had a minor overall effect on the Court's reported revenue.

Details of our findings are provided in the Findings and Recommendations section of this report. Schedule 1, Summary of Revenues and Revenue Test Results, presents total revenues by account, related amounts tested, and error amounts noted.

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Grant Special Revenue Fund, and the Non-Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. We stratified accounts into two groups comprised of personnel services (payroll) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods occurring in April 2018 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 30 of 309 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay was supported by salary schedules and Personnel Action Forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.
- To test material non-payroll accounts, we:
 - Selected all expenditure transactions that exceeded \$75,990;
 - Sample-tested an additional 24 transactions from the remaining population, in addition to the initial 40 expenditure transactions selected for testing internal controls;
 - Used a sample of 40 expenditure transactions to test both internal controls and the accuracy of recording transactions; and
 - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$3,197,519 of \$42,388,604, or 7.5% of total expenditures.

The test results revealed internal control deficiencies over procurement processing and human resource employee records. These identified errors had no effect on the Court's reporting of total expenditures.

Details of our findings are provided in the Findings and Recommendations section of this report. Schedule 2—Summary of Expenditures and Expenditure Test Results, presents total expenditures by account, related amounts tested and error amounts noted.

Fund Balance Testing

- We judgmentally selected the General Fund, the Grant Special Revenue Fund, and the Non-Grant Special Revenue Fund because these funds had significant balances in revenue and expenditure accounts.
- We tested revenue and expenditure transactions in the General Fund, the Grant Special Revenue Fund, and the Non-Grant Special Revenue Fund to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedules 1 and 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2018, were accurate and in compliance with applicable criteria.

We found that fund balances for the tested funds were properly reported.

Schedule 3—Summary of Fund Balances and Fund Balance Test Results, presents by Fund, total balances, and changes in fund balances.

We conducted this performance audit under the authority of GC section 77206(h) and 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 review of the court's internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit the court's financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

However, in the course of testing we noted internal control deficiencies. The details of these deficiencies are provided in the Findings and Recommendations section of this report.

**Follow-up on
Prior Audit
Findings**

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC’s Internal Audit Services, which issued a report in April 2017. We are not including any follow-up on matters presented in JCC’s prior report.

**Views of
Responsible
Officials**

We issued a draft audit report on December 1, 2020. Brandon E. Riley, Court Executive Officer, responded by letter dated December 10, 2020, agreeing with the results. This final audit report includes the Court’s response.

Restricted Use

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

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

February 9, 2021

**Schedule 1—
Summary of Revenues and Revenue Test Results¹
July 1, 2017, through June 30, 2018**

Revenue Accounts	Total Revenues	Percentage Totals	Amounts Tested	Percentages Tested	Error Amounts ⁴
State Financing Sources²					
Trial Court Trust Fund ³	\$ 33,775,550	80.23%	\$ 33,775,550	100%	\$ -
Improvement and Modernization Fund	89,889	0.21%	15,261	16.98%	-
Court Interpreter ³	1,746,143	4.15%	1,746,143	100%	-
MOU Requirements	545,848	1.30%	47,540	8.71%	-
Other Miscellaneous	<u>1,245,357</u>	2.96%	<u>1,245,357</u>	100%	-
Subtotal	37,402,786		36,829,851		-
Grants²					
AB 1058 Commissioner/Facilitator	819,833	1.95%	69,385	8.46%	-
Other Judicial Council Grants	987,099	2.34%	18,155	1.84%	-
Non- Judicial Council Grants	<u>907,621</u>	2.16%	<u>94,435</u>	10.40%	-
Subtotal	2,714,553		181,975		-
Other Financing Sources²					
Interest Income	141,036	0.34%	9,982	7.08%	-
Local Fees	286,909	0.68%	717	0.25%	-
Enhanced Collections	323,503	0.77%	28,019	8.66%	28,019
Escheatment	126,408	0.30%	61,478	48.63%	-
Prior Year Revenue	15,643	0.04%	1,041	6.65%	-
County Program - Restricted	1,006,736	2.39%	36,331	3.61%	-
Reimbursement Other	69,602	0.17%	1,410	2.03%	-
Other Miscellaneous	<u>9,615</u>	0.02%	<u>98</u>	1.02%	-
Subtotal	1,979,451		139,075		28,019
Total Revenues	<u>\$ 42,096,790</u>	100%	<u>\$ 37,150,901</u>	88.3%	<u>\$ 28,019</u>

¹ Differences due to rounding.

² Tested account internal controls.

³ Material account.

⁴ Revenues over/(under) stated; see Finding 1.

Schedule 2— Summary of Expenditures and Expenditure Test Results¹ July 1, 2017, through June 30, 2018

Expenditure Accounts	Total Expenditures	Percentage Totals	Amounts Tested	Percentages Tested	Error Amounts ⁴
Payroll ²					
Salaries – Permanent	\$ 19,639,798	46.33%	\$ 1,499,137	7.63%	\$ -
Temp Help	52,909	0.12%	-	0%	-
Overtime	94,715	0.22%	-	0%	-
Staff Benefits	13,577,552	32.03%	994,744	7.33%	-
Subtotals	33,364,974		2,493,881		-
Operating Expenses and Equipment ²					
General Expense	1,757,507	4.15%	305,756	17.40%	-
Printing	54,090	0.13%	6,293	11.63%	-
Telecommunications	201,902	0.48%	964	0.48%	-
Postage	179,377	0.42%	2,066	1.15%	-
Insurance	21,185	0.05%	1,397	6.59%	-
In-State Travel	55,586	0.13%	495	0.89%	-
Out of State Travel	4,625	0.01%	595	0%	-
Training	9,103	0.02%	450	4.94%	-
Security Services	837,320	1.98%	18,535	2.21%	-
Facility Operations	798,043	1.88%	3,055	0.38%	-
Utilities	71,380	0.17%	4,884	0%	-
Contracted Services ³	3,245,808	7.66%	16,542	0.51%	-
Consulting and Professional Services	167,504	0.40%	1,575	0.94%	-
Information Technology	1,030,400	2.43%	146,125	14.18%	420
Major Equipment	213,675	0.50%	179,984	84.23%	-
Other Items of Expense	28,112	0.07%	1,880	0%	1,880
Subtotals	8,675,617		690,596		2,300
Special Items of Expense ²					
Grand Jury	134,980	0.32%	45	0%	-
Jury Costs	279,306	0.66%	74	0.03%	-
Judgements, Settlements, Claims	-	0%	-	0%	-
Debt Service	-	0%	-	0%	-
Other ⁵	83	0.00%	12,963	0%	-
Capital Costs	-	0%	-	0%	-
Internal Cost Recovery	-	0%	-	0%	-
Prior Year Expense Adjustment	(66,356)	-0.16%	(40)	0.06%	-
Subtotals	348,013		13,042		-
Total Expenditures	\$ 42,388,604	100%	\$ 3,197,519	7.54%	\$ 2,300

¹ Differences due to rounding.

² Tested account internal controls.

³ Material account.

⁴ Expenditures over/(under) stated; see Finding 2.

⁵ The account transaction selected for testing in an amount of \$12,963 reflects the reversal of a prior year accrual, so is not included in the expenditure balance shown at year-end.

Schedule 3—
Summary of Fund Balances and Fund Balance Test Results¹
July 1, 2017, through June 30, 2018

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 1,065,954	\$ 1,628,211	\$ -	\$ 2,694,165
Revenues	37,622,777	1,759,460	2,714,553	42,096,790
Expenditures	(38,163,498)	(1,495,819)	(2,729,286)	(42,388,603)
Transfers In	-	-	14,734	14,734
Transfers Out	(14,734)	-	-	(14,734)
Ending Balance	<u>\$ 510,499</u>	<u>\$ 1,891,852</u>	<u>\$ -</u>	<u>\$ 2,402,352</u>
<u>Ending Balance Error Amount</u>				
none	-	-	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding.

Findings and Recommendations

FINDING 1— Revenue transactions not posted properly

During our review of revenues, we noted an error in the Court’s recording of the year-end accrual amount totaling \$28,019 for the category of Enhanced Collections Revenue (General Ledger [GL] Account No. 821200). The Court’s accounting records show that accrual was not posted properly between two sub-accounts totaling \$6,365 for Enhanced Collections, Civil Assessments (GL Account No. 821201) and \$21,654 for Enhanced Collections, Other (GL Account No. 821202). The entries should have been posted in the opposite sub-accounts. Court accounting staff members indicated that they were involved in a physical office move that affected their routine activities, and the misclassification was an oversight. The records we obtained show sufficient evidence of review by the Court Finance Officer or other accounting management before the amounts were posted to the Phoenix accounting system.

Despite the misclassified posting, the Court’s annual financial statement presents only a single Enhanced Collections Revenue balance, which combines both sub-accounts and is correct, in total, for the revenue balance presented in the FY 2017-18 financial statement. However, a misclassification of this nature and type may lead to incorrect reporting in other budget and reporting requirements, such as the quarterly Report of Revenue and related state reporting for net civil assessment revenue, which were not reviewed or evaluated in our audit.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. FIN 5.02, General Ledger, section 3.0 states, in part:

It is the policy of the trial court to establish an accounting system with a chart of accounts and gl that enable the court to record financial transactions with accuracy and consistency. All of the trial courts use a single chart of accounts. This single set of accounts ensures that the financial position of all courts is reported consistently and clearly. The actual accounts each court utilizes may vary depending on the complexity of operations.

Recommendation

We recommend that the Court maintain internal control practices to ensure that a secondary management review of separately prepared journal entries is performed.

FINDING 2— Expenditure documentation not provided

During our review of expenditure-related internal control tasks, we selected a sample of 40 expenditure transactions to review, and noted that the Court did not provide adequate supporting documentation, such as a purchase requisition or purchase order, for one expenditure transaction totaling \$1,800.

We also noted a separate expenditure transaction in which the Court did not initiate and approve a purchase order for a contract renewal prior to the vendor’s monthly service and billing for \$420. The purchase order was

signed and dated October 17, 2017; however, the invoice was dated August 15, 2017, and date-stamped as received by the accounting department on August 21, 2017. The expenditure was incurred for charges in an existing, but expired, contract. The Court provided evidence of extending the contract for an additional year (FY 2017-18). Although the Court renewed the contract, it did not process the direct payment ahead of completing the purchase order. Ultimately, the payment was appropriately approved by the Court Finance Officer and the invoice was paid in a timely manner.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. FIN 8.01, Vendor Invoice Processing, section 3.0 states, in part:

All trial court vendor, supplier, consultant and contractor invoices shall be routed to the trial court accounts payable department for processing. The accounts payable staff shall process the invoices in a timely fashion and in accordance with the terms and conditions of the purchase agreements. All invoices must be matched to the proper supporting documentation and must be approved for payment by authorized court personnel acting within the scope of their authority.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. FIN 7.03, Contract Administration, section 3.0 states, in part:

The trial court must ensure that:

- The procurement of goods and services is appropriately documented;
- Suppliers and contractors comply with the terms of their purchase orders or contracts; as well as applicable laws, rules, and regulations;
- Performance progresses satisfactorily;
- Problems are identified that may threaten performance; and
- Contractual disputes are addressed and settled according to sound administrative practice and business judgment.

Recommendation

We recommend that the Court strengthen internal controls to ensure that it maintains supporting documentation and that it identifies vendor requirements early enough to properly review, process, and authorize records for operating procurement and related disbursements.

FINDING 3— Insufficient personnel records

During our review of payroll transactions, we noted that 30 court employees selected for review did not have personnel-action request forms on file. As a result, we were unable to verify salary and employment for these employees. A personnel-action request form is used to verify the position appointment and the authorization of salary and time-base for resulting payroll-related expenditures. The Court's human resources personnel indicated that they stopped using personnel action forms for step increases when the Court's payroll processing function was moved to an outside vendor, Automatic Data Processing, Inc. (ADP). We did not notice

documentation policies in the records we reviewed at the court; however, such policies may separately exist with the JCC.

Good internal control policies include the maintenance of standardized documentation for all employees that include the employees' position numbers, approved pay rates, salary steps, any stipends, and job descriptions. The personnel action form should be signed by the employee, the appropriate hiring management authority, and the human resources director when the employee is first hired, and upon each change in the employee's pay rate and/or position. The form is used by an appointing authority to report the appointment of an employee, miscellaneous changes, and separation actions. Use of such a form would improve the Court's processing of payroll and allow employees to notify their departmental personnel office of erroneous information and verify corrections or changes.

Recommendation

We recommend that the Court strengthen its internal controls over employment records and improve the practice of producing and retaining either personnel action request forms for every employee. Because payroll systems or processing can change over time, establishing a written local court policy to complete and retain signed personnel action request forms when an employee is first hired, and to require a revised form for changes to the pay rate and position, avoids inefficiencies of maintaining and duplicating personnel data among different systems, which can be costly and result in excessive time lags in managing personnel actions.

**Attachment—
Superior Court of California, County of San Joaquin
Response to Draft Audit Report**



The Superior Court of California

COUNTY OF SAN JOAQUIN
180 East Weber Avenue • Stockton, California 95202
Telephone 209-992-5695 • Fax 209-992-5667

www.sjcourts.org

BRANDON E. RILEY
Court Executive Officer – Jury Commissioner

December 10, 2020

Jim L. Spano, CPA
Chief, Division of Audits
California State Controller
P. O. Box 942850
Sacramento, CA 94250

Dear Mr. Spano,

The Court is in receipt of the State Controller's Office draft audit report titled "Superior Court of California, County of San Joaquin, Validity of Recorded Revenues, Expenditures, and Fund Balances" for the period of July 1, 2017 through June 30, 2018. Below are the Court's responses to the findings and recommendations contained in the draft audit report.

Finding 1 – Revenue transactions not posted properly

One revenue transaction was not posted properly to sub account. We agree with the recommendation that a secondary management review of separately prepared journal entries is performed.

Finding 2 – Expenditure documentation not provided

Two expenditures out of 40 reviewed did not have a purchase requisition or purchase order. We agree with the recommendation that the Court strengthen our internal controls to ensure we maintain appropriately supporting documentation.

Finding 3 – Insufficient personnel records

It was noted that 30 court employees selected for review did not have personnel-action request forms on file for step increases. We agree with the recommendation that we strengthen our internal controls over employment records and create and retain personnel action request forms for every employee.

Sincerely,

Brandon E. Riley
Court Executive Officer

cc: Grant Parks, Principal Manager
Audit Services
Judicial Council of California

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

<http://www.sco.ca.gov>



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 03/10/2021

Action Item #3 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item** – Discuss and approve for public posting the State Controller’s audit of El Dorado Superior Court.

Supporting Documents:

- ***Attachment C***—Audit report of El Dorado Superior Court’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2017-18)

Background:

Section 77206(h) of the Government Code requires the State Controller’s Office to audit the revenues, expenditures, and fund balances of the superior courts. The annual budget act appropriates funding from the Trial Court Trust Fund to reimburse the State Controller for the costs of these audits.

Audit Summary:

The State Controller concluded that El Dorado superior court complied with the governing statutes, rules, regulations, and policies for the revenues, expenditures, and fund balances under the court’s control.

Nevertheless, the audit did identify two audit findings as summarized below:

Recording of Revenue – For the Enhanced Collections Program, the Court did not apply the correct indirect cost rate and instead used a lower rate to recover its costs. The effect of the error was the Court missing out on an opportunity to recover an additional \$24,078 in funds that otherwise went to the State and county. The auditor’s point was that the Court should have used the higher JCC-approved rate and applied it to both salaries and benefits. In its response, the Court acknowledged it used a lower rate, indicating it was conservative in its approach resulting in additional funds being passed on to the State and

county. The Court agreed to have further discussions with JCC collections staff and potentially refine its procedures.

Classifying Expenditures – The auditors noted miscellaneous issues with paying vendors without purchase orders, requisition forms, or contracts for a few payment items ranging between \$313 and \$1,800. Finally, the auditors noted eight prior year transactions (pertaining to FY 16-17) that were not accrued at year-end and were instead posted as current year expenses in FY 17-18. Under such circumstances, courts are required to post these prior-year expenses (since they were not accrued) to the prior year expense adjustment account (GL 99910). Doing so allows courts to match expenditures more accurately to the relevant accounting period without needing to restate the prior year's fund balance.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF EL DORADO

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2017, through June 30, 2018



BETTY T. YEE
California State Controller

February 2021



BETTY T. YEE
California State Controller

February 16, 2021

Tania Ugrin-Capobianco, Court Executive Officer
Superior Court of California, County of El Dorado
2850 Fairlane Court, Suite 110
Placerville, CA 95667

Dear Ms. Ugrin-Capobianco:

The State Controller's Office audited the Superior Court of California, County of El Dorado (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, in the course of testing, we noted weaknesses in the Court's internal controls over its enhanced collection reimbursements, year-end revenue accruals, and expenditure-related procurements and disbursements process. These issues are described in the Findings and Recommendations section of our report.

This report is for your information and use. The Court's responses to the findings are incorporated into this final report. The Court disagreed with our position in Finding 1 regarding its calculation of reimbursements from the enhanced collections program, but also indicated that it would seek to clarify with the JCC what corrective actions may be appropriate. The Court generally agreed with our observations in Finding 2, and provided measures to correct and address the fiscal control weaknesses and recommendations. We appreciate the Court's willingness to implement corrective actions.

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

Sincerely,

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

MR/as

Tania Ugrin-Capobianco,
Court Executive Officer

-2-

February 16, 2021

cc: Shelby Wineinger, Assistant Court Executive Officer
Superior Court of California, County of El Dorado
Susan Sandoval, Fiscal Services Supervisor
Superior Court of California, County of El Dorado
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer and Director of Finance
Judicial Council of California
Grant Parks, Principal Manager
Audit Services
Judicial Council of California
Aaron Edwards, Assistant Program Budget Manager
California Department of Finance
Emma Jungwirth, Principal Program Budget Analyst
California Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of El Dorado (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, in the course of testing, we noted weaknesses in the Court's internal controls over its enhanced collection reimbursements, year-end revenue accruals, and expenditure-related procurements and disbursements process. These issues are described in the Findings and Recommendations section of our report.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, established through Article IV of the Constitution of California. The Constitution charges the Judicial Council of California (JCC) with authority to adopt rules for court administration, practices, and procedures. The Judicial Council Governance Policies are included in the California Rules of Court. Trial courts are also required to comply with various other state laws, rules, and regulations, much of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, The Organization and Government of Courts.

Pursuant to California Rules of Court (CRC) Rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual*, which provides guidance and directives for trial court fiscal management. The manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. The manual is comprised of an internal control framework that enables courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability. Procurement and contracting policies and procedures are addressed separately in the *Judicial Branch Contracting Manual*, adopted by the JCC under Public Contract Code section 19206.

With respect to trial court operations, CRC Rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty,

integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components form the core of subject matter of our audit.

The Trial Court Trust Fund is the primary source of funding for trial court operations. The JCC allocates monies in the Trial Court Trust Fund to trial courts. The Trial Court Trust Fund's two main revenue sources are the annual transfer of appropriations from the State's General Fund and maintenance-of-effort payments by counties, derived from their collections of fines, fees, and forfeitures.

In fiscal year (FY) 2017-18, the Court (County of El Dorado) generated approximately 77.4% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 71 staff members to fulfill the operational and administrative activities necessary to serve El Dorado County's population of 188,993. The Court incurred approximately \$9,098,945 million in expenditures for the period of July 1, 2017, through June 30, 2018. Of this amount, approximately 78% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, a Non-Grant Special Revenue Fund, and a Grant Special Revenue Fund. All funds had revenues and expenditures in excess of 4% of total revenues and expenditures and were considered material and significant.

We performed the audit at the request of the JCC. The authority is provided by Interagency Agreement No. 38881, dated May 28, 2019, between the SCO and the JCC.

**Objective, Scope,
and Methodology**

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

The audit period was July 1, 2017, through June 30, 2018.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with authorizing Government Code sections, properly supported by documentation, and recorded accurately in the accounting records.
- Expenditures were incurred pursuant to authorizing Government Code sections, consistent with the funds' purposes, properly authorized, adequately supported, and recorded accurately in the accounting records.

- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

To accomplish our objective, we:

General Procedures

- Reviewed the *Judicial Council Governance Policies (November 2017)*, the Budget Act, the *Manual of State Funds*, applicable Government Code and California Rules of Court sections, the *Trial Court Financial Policies and Procedures Manual (Eighth Edition, December 2016)*, and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Controls

- Reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- Interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties, were properly designed, implemented, and operating effectively, by performing walk-throughs of revenue and expenditure transactions.
- Reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- Evaluated electronic access controls and the data reliability of the Court's financial system.
- Selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 40 revenue items and 40 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. If errors or questionable variances were identified, when applicable, we tested additional items and did not project error rates to the account's population of transactions or its dollar value total.

We designed our testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our testing methodology and results are as follows:

Revenue Testing

- We tested revenue transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether revenue accounting was consistent with authorizing Government Code sections, properly

supported by documentation, and recorded correctly in the accounting system.

- We tested 100% of the revenue balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$8,648,964 for FY 2017-18. Material revenue accounts are identified in Schedule 1 of this report.
- We tested \$7,791,003 of \$8,648,964, or 90.1% of total revenues.

We found errors in the recording of transactions that caused current-year (FY 2017-18) revenues to be understated by \$24,417. These identified errors had a minor cumulative effect on the Court's reporting of revenue (approximately 0.003% of total revenue reported). We did not expand our testing because we tested 90% of the total revenues, and the errors identified had only a minor cumulative effect on the overall revenue balance.

Details of our findings are provided in the Findings and Recommendations section of this report. Schedule 1, Summary of Revenues and Revenue Test Results, presents total revenues by account, related amounts tested, and error amounts noted.

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. Material expenditure accounts are identified in Schedule 2 of this report. We stratified accounts into two groups comprised of personnel services (payroll) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods occurring in March 2018 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 25 of 72 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay were supported by salary schedules and Personnel Action Forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.
- To test material non-payroll accounts, we:
 - Sample-tested 58 transactions from the material accounts. These transactions include the initial 40 expenditure transactions

selected for testing internal controls; and

- Traced expenditures recorded in the general ledger to supporting documentation.
- We tested \$618,497 of \$9,085,945, or 6.8% of total expenditures.

The test results revealed control weaknesses in procurements and disbursements, and in recording prior-year transactions. The cumulative error total for transactions identified in expenditure-related control testing is \$4,950 (or 0.0005% of reported expenditures), which has a negligible effect on financial reporting. We did not expand testing due to the negligible effect of the errors identified.

Details of our findings are provided in the Findings and Recommendations section of this report. Schedule 2, Summary of Expenditures and Expenditure Test Results, presents total expenditures by account, related amounts tested, and error amounts noted.

Fund Balance Testing

- We judgmentally selected the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund because these funds had significant balances in revenue and expenditure accounts.
- We tested revenue and expenditure transactions in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedule 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2018, were accurate and in compliance with applicable criteria.

For the funds tested, we noted that the General Fund balance was understated by \$339 and the Non-Grant Special Revenue Fund balance was understated by \$24,078 as of June 30, 2018. These balances were understated because the Court did not accurately calculate and accrue reimbursements and revenues due the court.

Schedule 3, Summary of Fund Balances and Fund Balance Test Results, presents total balances, changes in fund balances, and error amounts noted by fund.

We conducted this performance audit under the authority of GC section 77206(h) and 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 review of the court’s internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit the court’s financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

However, in the course of testing and as presented previously, we noted instances of error and internal control deficiencies. The details of these issues are provided in the Findings and Recommendations section of this report.

**Follow-up on
Prior Audit
Findings**

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC’s Internal Audit Services, which issued a report in April 2011. We did not include any follow-up related to matters presented in JCC’s prior report.

**Views of
Responsible
Officials**

We issued a draft audit report on November 23, 2020. Shelby Wineinger, Assistant Court Executive Officer, responded by letter dated December 16, 2020 (Attachment), agreeing with the audit results, except for Finding 1 with respect to calculating reimbursable costs of enhanced collections. This final audit report includes the Court’s response.

Restricted Use

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

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

February 16, 2021

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2017, through June 30, 2018**

Revenue Accounts	Total Revenues ¹	Percentage Totals	Amounts Tested ¹	Percentages Tested	Error Amounts ^{1, 2}
<u>State Financing Sources</u>³					
Trial Court Trust Fund ⁴	\$ 6,690,522	77.4%	\$ 6,690,522	100%	\$ (339)
Improvement and Modernization Fund	23,701	0.3%	6,618	27.9%	-
Court Interpreter	250,971	2.9%	11,548	4.6%	-
MOU Requirements	110,774	1.3%	43,209	39.0%	-
Other Miscellaneous	213,120	2.5%	213,120	100%	-
Subtotal	7,289,088		6,965,017		(339)
<u>Grants</u>³					
AB 1058 Commissioner/Facilitator ⁴	363,625	4.2%	363,625	100%	-
Other Judicial Council Grants	171,455	2.0%	14,098	8.2%	-
Subtotal	535,079		377,723		-
<u>Other Financing Sources</u>³					
Interest Income	11,018	0.1%	675	6.1%	-
Local Fees	299,523	3.5%	13,282	4.4%	-
Non-Fee Revenues	18,688	0.2%	5,117	27.4%	-
Enhanced Collections ⁴	402,593	4.7%	402,593	100%	(24,078)
Prior Year Revenue	(280)	0.0%	166	59.3%	-
County Program – Restricted	77,591	0.9%	20,459	26.4%	-
Reimbursement Other	10,968	0.1%	2,037	18.6%	-
Other Miscellaneous	4,694	0.1%	3,964	84.5%	-
Subtotal	824,797		448,293		(24,078)
Total Revenues	<u>\$ 8,648,964</u>	100%	<u>\$ 7,791,033</u>	90.1%	<u>\$ (24,417)</u>

¹ Differences due to rounding.

² Revenues over/(under) stated; see Finding 1.

³ Tested account internal controls.

⁴ Material account.

**Schedule 2—
Summary of Expenditures and Expenditure Test Results
July 1, 2017, through June 30, 2018**

Expenditure Accounts	Total Expenditures ¹	Percentage Totals	Amounts Tested ¹	Percentages Tested	Error Amounts ^{1, 2}
<u>Payroll</u>³					
Salaries – Permanent ⁴	\$ 4,689,429	51.5%	\$ 346,945	7.4%	\$ -
Temp Help	-	0.0%	-	0.0%	-
Overtime	2,263	0.0%	-	0.0%	-
Staff Benefits ⁴	2,407,779	26.5%	141,255	5.9%	-
Subtotals	7,099,471		488,200		-
<u>Operating Expenses and Equipment</u>³					
General Expense	160,758	1.8%	3,185	-2.0%	1,056
Printing	16,178	0.2%	6,573	40.6%	-
Telecommunications	83,764	0.9%	1,912	2.3%	1,781
Postage	52,345	0.6%	3,564	6.8%	313
Insurance	3,025	0.0%	3,025	100%	-
In-State Travel	25,746	0.3%	1,682	6.5%	-
Out of State Travel	-	0.0%	-	0.0%	-
Training	8,932	0.1%	2,483	27.8%	-
Security Services	19,058	0.2%	2,244	11.8%	-
Facility Operations	104,647	1.2%	2,192	2.1%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services ⁴	1,071,124	11.8%	50,377	4.7%	3,693
Consulting and Professional Services	119,453	1.3%	19,666	16.5%	-
Information Technology	268,574	3.0%	23,107	8.6%	1,800
Major Equipment	9,633	0.1%	9,633	100%	-
Other Items of Expense	-	0.0%	-	0.0%	-
Subtotals	1,943,236		129,642		8,643
<u>Special Items of Expense</u>³					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	55,648	0.6%	64	0.1%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	156	0.0%	-
Prior-year Expense Adjustment	590	0.0%	435	73.7%	(3,693)
Subtotals	55,648		220		(3,693)
Total Expenditures	\$ 9,098,945	100%	\$ 618,497	6.7%	\$ 4,950

¹ Differences due to rounding.

² Expenditures over/(under) stated; see Finding 2.

³ Tested account internal controls.

⁴ Material account.

Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2017, through June 30, 2018

Balance ¹	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 29,709	\$ -	\$ -	\$ 29,709
Revenues	7,528,901	584,984	535,079	8,648,964
Expenditures	(7,970,476)	(593,390)	(535,079)	(9,098,945)
Transfers In	-	-	-	-
Transfers Out	(8,407)	8,407	-	-
Ending Balance	<u>\$ (420,273)</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ (420,273)</u>
Ending Balance Error Amount:				
Revenues ²	(339)	(24,078)	-	(24,417)
Totals	<u>\$ (339)</u>	<u>\$ (24,078)</u>	<u>\$ -</u>	<u>\$ (24,417)</u>

¹ Differences due to rounding.

² See Finding 1.

Findings and Recommendations

FINDING 1— Revenues – Internal control deficiencies and accounting errors

As part of our revenue testing, we reviewed the Enhanced Collections Program. We also compared and reconciled the JCC's Trial Court Trust Fund distributions with the Court's recorded monthly revenue ledger entries. We noted errors in the calculation and recording of reimbursable enhanced collection program costs. We also found an omitted year-end Trial Court Trust Fund accrual. These errors resulted from deficiencies in accounting internal controls. Specifically, we found that:

- The Court did not apply its indirect cost rate to staff benefit costs when calculating the reimbursable costs for administering its Enhanced Collections Program. Collections performed in the enforcement of court orders for fees, fines, forfeitures, restitutions, penalties, and assessments result in various operating costs to the Court. Through the Enhanced Collections Program, the Court receives reimbursements to recover related operating and indirect costs.

Additionally, the Court applied an incorrect indirect cost rate to its reimbursable cost calculations. The Court's approved indirect cost rate for FY 2017-18 was 20.02%. However, the Court applied a lower indirect cost rate of 10% to direct salaries charged to the Enhanced Collections Program. If the Court had applied the approved indirect cost rate of 20.02% to both direct salaries and benefits charged to the program, it would have recovered additional reimbursements of \$24,078.

- The Court did not accrue \$339 at year-end for the Trial Court Trust Fund Automated Record Keeping and Micro Graphics (General Ledger [GL] Account No. 812160) from Distribution No. 14. We discovered this minor variance when comparing the Trial Court Trust Fund distributions to the Court's ledger entries. The Court acknowledged an oversight in recording the distribution.

CRC Rule 10.804(a) states:

As part of its responsibility for regulating the budget and fiscal management of the trial courts, the Judicial Council adopts The Trial Court Financial Policies and Procedures Manual. The manual contains regulations establishing budget procedures, recordkeeping, accounting standards, and other financial guidelines for superior courts. The manual sets out a system of fundamental internal controls that will enable the trial courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability.”

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.01, section 6.3.1 states, in part:

Since the trial court derives most of its revenues from state funding and local fees and fines, revenues can be accurately measured and expected to be available within a reasonable amount of time to pay for current liabilities. The trial court must use a 60-day period as the criterion to determine revenue availability.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.02, section 6.7 states, in part:

To achieve full cost recovery, each court will apply the applicable indirect cost rate (in effect at the time the billing is prepared) to the total salaries/wages and benefits of direct cost centers or programs, unless an indirect cost rate exception is in effect for the entity being billed (as may be the case with the federal government).

Recommendation

We recommend that the Court strengthen its internal controls over Enhanced Collection reimbursements and the year-end closing process to ensure that revenues are fully recorded and properly accrued in the period in which they are measurable and available.

Court's Response

The draft audit report states the Court could have withheld an additional \$24,078 from collections revenue to offset the costs of its Enhanced Collections program by applying a 20.02% indirect cost rate to both staff salaries and benefits, instead of the lower 10% rate actually applied to staff salaries alone. For clarity and perspective, the Court's conservative approach to recovering its costs ultimately resulted in more collection revenues being passed on to the county and the State, which provides funding for important programs.

Importantly, the Court's Enhanced Collections program is based on sections 1463.007 and 1463.010 of the Penal Code, which require the Court to follow Judicial Council guidelines for operating this program. The Council's guidelines specifically state that a court may impose a 10% indirect cost rate, applied only to staff salaries, in lieu of developing another rate. The Court appreciates the auditor's conclusion that it potentially could have withheld more collections revenue to offset its costs, but we respectfully disagree that the Court violated Council policy or recorded revenue improperly. Nevertheless, the Court will discuss this issue with Judicial Council collections staff and will develop a corrective action plan, if necessary.

SCO Comment

Our finding and recommendation remain unchanged.

Although the JCC guidelines permit the Superior Courts to use a 10% default rate in lieu of another rate, the Court developed an alternative indirect cost rate proposal prior to the audit period. The Court submitted the indirect cost rate proposal to the Judicial Council Budget Services staff for review and approval. The JCC approved the Court's request to use a 20.02% cost rate for FY 2017-18 in a February 9, 2018 memorandum.

The Court references Penal Code sections 1463.07 and 1463.10 to justify its rate. However, these statutes do not specify a rate; they provide the Superior Courts with authority and direction for operating a comprehensive collection program. In particular, Penal Code 1463.10 directs the Court to follow the Judicial Council Guidelines. According to

the JCC guidelines referenced in the finding above, the approved rate should be applied to both salaries and benefits.

**FINDING 2—
Expenditures –
Internal control
deficiencies and
accounting
classification
errors**

During our review and testing of the Court’s expenditures, we noted internal control deficiencies relating to its procurement and disbursement process. We also noted classification errors in the accounting and recording of invoiced transactions.

Procurement and disbursement internal control deficiencies include:

- A purchase order, requisition form, or contract was not provided to support payment terms for two vendor transactions in amounts of \$1,781 and \$313;
- Services were completed prior to renewal of a vendor contract in the amount of \$1,056; and
- Services were completed prior to approval of a vendor purchase order in the amount of \$1,800.

Expenditures related to prior-year transactions were misclassified in the accounts as current-year operating activities. The testing revealed eight invoices representing services that were rendered in the prior fiscal year (FY 2016-2017). Transactions that were not accrued in a prior year, and were paid in the current year, should be recorded in the Prior-Year Expense Adjustment Account (GL Account No. 99910). The combined value of the eight invoices is \$3,693. Court staff members indicated that delays in receiving invoices prevented the accrual of expenditures before the June 30 deadline.

It is worthwhile noting that the Prior-Year Expense Adjustment Account is treated as a current-year expenditure (recognized) and not as an adjustment to prior-year financial statements. Therefore, the fund balance is not affected by these misclassification errors. However, correctly classifying prior-year transactions in the Prior-Year Expenses Adjustment Account more closely matches period costs by truing up current year operating expense accounts and improves the accuracy of accounting data used for budget and cost management.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 1.03, section 6.3.3 states, in part:

5. Proper Authorization Documentation

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

- ii. Authorizations are issued by court employees acting within the scope of their authority.
- iii. Transactions conform to the terms of the authorizations.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.01, section 6.4 states, in part:

The trial court must recognize expenditures in the fiscal year during which goods are received or services are rendered.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.02, section 3.0 states:

It is the policy of the trial court to establish an accounting system with a chart of accounts and general ledger that enables the court to record financial transactions with accuracy and consistency. All of the trial courts use a single chart of accounts. This single set of accounts ensures that the financial position of all courts is reported consistently and clearly. The actual accounts each court utilizes may vary depending on the complexity of operations.

The Trial Court Chart of Accounts describes GL Account No. 999910 – Prior-Year Expense Adjustment as the account used for recording “expenses related to prior year activity.”

Recommendation

We recommend that the Court:

- Enforce procedural internal controls to ensure that all account balances are accurately stated in the financial statements at year-end.
- Maintain adequate procurement documents to define the services that vendors agree to provide the Court.

Court’s Response

Procurement and disbursement internal control deficiencies:

- Purchase order, requisition form, or contract not provided to support payment terms for two vendor transactions in the amounts of \$1,782 and \$324: Contracts were provided to support payment terms for both vendor transactions, however the Court agrees that purchase orders were not created for these contracts. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Services completed prior to renewal of vendor contract (\$1,057) and vendor purchase order approval (\$1,800): These expenses were for ongoing services which renew each year, and the Court agrees with this finding. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Prior year expenditures: The Court will share this audit finding with Judicial Council accounting staff to obtain greater clarity over the proper use of the prior-year adjustment accounts in the general

ledger. Certain expenditures, when recorded to specific general ledger accounts, are reimbursable to the Court from the Judicial Council, and may be impacted. The Court agrees in principle that adjustments to revenue or expenditures from the prior year should not affect the reporting of the current year's revenues and expenditures.

- Importantly, the draft audit report states that the errors identified (equal to 0.0005% of reported expenditures) had a negligible effect on the Court's financial reporting.

**Attachment—
Superior Court of California, County of El Dorado
Response to Draft Audit Report**



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF EL DORADO**

2850 Fairlane Court, Suite 110
Placerville, CA 95667

1

December 16, 2020

Joel James
Chief, Financial Audits Bureau
California State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250

RE: Superior Court of California, County of El Dorado
Validity of Recorded Revenues, Expenditures, and Fund Balances Audit Report
July 1, 2017 - June 30, 2018

Dear Mr. James,

We are in receipt of the draft audit report referenced above, and have provided our responses to the two findings.

Finding #1:

The draft audit report states the Court could have withheld an additional \$24,078 from collections revenue to offset the costs of its Enhanced Collections program by applying a 20.02% indirect cost rate to both staff salaries and benefits, instead of the lower 10% rate actually applied to staff salaries alone. For clarity and perspective, the Court's conservative approach to recovering its costs ultimately resulted in more collection revenues being passed on to the county and the State, which provides funding for important programs.

Importantly, the Court's Enhanced Collections program is based on sections 1463.007 and 1463.010 of the Penal Code, which require the Court to follow Judicial Council guidelines for operating this program. The Council's guidelines specifically state that a court may impose a 10% indirect cost rate, applied only to staff salaries, in lieu of developing another rate. The Court appreciates the auditor's conclusion that it potentially could have withheld more collections revenue to offset its costs, but we respectfully disagree that the Court violated Council policy or recorded revenue improperly. Nevertheless, the Court will discuss this issue with Judicial Council collections staff and will develop a corrective action plan, if necessary.

El Dorado Superior Court FY 17-18

Finding #2:

Procurement and disbursement internal control deficiencies:

- Purchase order, requisition form, or contract not provided to support payment terms for two vendor transactions in the amounts of \$1,782 and \$324: Contracts were provided to support payment terms for both vendor transactions, however the Court agrees that purchase orders were not created for these contracts. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Services completed prior to renewal of vendor contract (\$1,057) and vendor purchase order approval (\$1,800): These expenses were for ongoing services which renew each year, and the Court agrees with this finding. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Prior year expenditures: The Court will share this audit finding with Judicial Council accounting staff to obtain greater clarity over the proper use of the prior-year adjustment accounts in the general ledger. Certain expenditures, when recorded to specific general ledger accounts, are reimbursable to the Court from the Judicial Council, and may be impacted. The Court agrees in principle that adjustments to revenue or expenditures from the prior year should not affect the reporting of the current year's revenues and expenditures.
- Importantly, the draft audit report states that the errors identified (equal to 0.0005% of reported expenditures) had a negligible effect on the Court's financial reporting.

Sincerely,

Shelby Wineinger
Asst. Court Executive Officer

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

<http://www.sco.ca.gov>



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 03/10/2021

Action Item #5 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item** – Discuss and approve for public posting the State Controller’s audit of Solano Superior Court.

Supporting Documents:

- ***Attachment D***—Audit report of Solano Superior Court’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2017-18)

Background:

Section 77206(h) of the Government Code requires the State Controller’s Office to audit the revenues, expenditures, and fund balances of the superior courts. The annual budget act appropriates funding from the Trial Court Trust Fund to reimburse the State Controller for the costs of these audits.

Audit Summary:

The State Controller concluded that Solano superior court complied with the governing statutes, rules, regulations, and policies for the revenues, expenditures, and fund balances under the court’s control. To the Court’s credit, the SCO audit team did not have any reportable audit findings.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF SOLANO

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2018, through June 30, 2019



BETTY T. YEE
California State Controller

February 2021



BETTY T. YEE
California State Controller

February 24, 2021

Brian Taylor, Court Executive Officer
Superior Court of California, County of Solano
Hall of Justice
600 Union Avenue, 3rd Floor
Fairfield, CA 94533

Dear Mr. Taylor:

The State Controller's Office audited the Superior Court of California, County of Solano (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2018, through June 30, 2019.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances.

The Court agreed with our conclusions. This report is for your information and use.

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

Sincerely,

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

MR/as

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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Solano (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2018, through June 30, 2019.

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court (CRC), established through Article IV of the Constitution of California. The Constitution charges the Judicial Council of California (JCC) with authority to adopt rules for court administration, practices, and procedures. The Judicial Council Governance Policies are included in the CRC. Trial courts are also required to comply with various other state laws, rules, and regulations, much of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, The Organization and Government of Courts.

Pursuant to CRC Rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual*, which provides guidance and directives for trial court fiscal management. The manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. The manual is comprised of an internal control framework that enables courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability. Procurement and contracting policies and procedures are addressed separately in the *Judicial Branch Contracting Manual*, adopted by the JCC under Public Contract Code section 19206.

With respect to trial court operations, CRC Rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position

Worksheets. Financial statement components form the core of subject matter of our audit.

The Trial Court Trust Fund is the primary source of funding for trial court operations. The JCC allocates monies in the Trial Court Trust Fund to trial courts. The Trial Court Trust Fund's two main revenue sources are the annual transfer of appropriations from the State's General Fund and maintenance-of-effort payments by counties, derived from their collections of fines, fees, and forfeitures.

In fiscal year (FY) 2018-19, the Court (County of Solano) generated approximately 83% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 224 staff members to fulfill the operational and administrative activities necessary to serve Solano County's population of 445,725. The Court incurred approximately \$28,687,541 million in expenditures for the period of July 1, 2018, through June 30, 2019. Of this amount, approximately 78% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, Non-Grant Special Revenue Fund, and a Grant Special Revenue Fund. All funds had revenues and expenditures in excess of four percent of total revenues and expenditures, and were considered material and significant.

We performed the audit at the request of the JCC. The authority is provided by Interagency Agreement No. 38881, dated May 28, 2019, between the SCO and the JCC.

Objective, Scope, and Methodology

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

The audit period was July 1, 2018, through June 30, 2019.

Specifically, we conducted this audit to determine whether:

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

To accomplish our objective, we:

General Procedures

- Reviewed the *Judicial Council Governance Policies (November 2017)*, the Budget Act, the *Manual of State Funds*, applicable Government Code and CRC sections, the *Trial Court Financial Policies and Procedures Manual Ninth Edition, June 2018*, and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances;

Internal Controls

- Reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management;
- Interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls;
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions;
- Reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances;
- Evaluated electronic access controls and data reliability of the Court's financial system; and
- Selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 40 revenue items and 65 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the impact of the identified errors. Errors were not projected to the population.

We designed our testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our testing methodology and results are summarized below:

Revenue Testing

- We tested revenue transactions and account balances in the General Fund, Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether revenue accounting was consistent with authorizing Government Code sections, properly supported by documentation, and recorded correctly in the accounting system.
- We tested balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$29,470,927 for FY 2018-19.

Procedures included both analytical comparisons and test of transaction details through sampling. We compared authorized revenue allocations and recorded amounts for significant and material accounts. An additional 40 transactions were selected from accounts (including non-significant accounts) to test both process internal controls and account recording.

- We tested \$25,946,455 of \$29,420,927, or 88% of total revenues.

We found no errors in the recording of transactions. Schedule 1—Summary of Revenues and Revenue Test Results, presents total revenues by account and related amounts tested.

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. We stratified accounts into two groups comprised of personnel services (payroll) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods occurring in April 2019 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 25 of 224 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay was supported by salary schedules and Personnel Action Forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.
- To test material non-payroll accounts, we:
 - Selected all expenditure transactions that exceeded \$60,000;
 - Selected a sample of 40 expenditure transactions to test both internal controls and the accuracy of recording transactions;
 - Sample-tested an additional 18 transactions from significant and material accounts, in addition to the initial 40 expenditure transactions selected for testing internal controls; and
 - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$2,663,153 of \$28,687,541, or 9.3% of total expenditures.

We found no errors in the recording of transactions. Schedule 2—Summary of Expenditures and Expenditure Test Results, presents total expenditures by account and related amounts tested.

Fund Balance Testing

- We judgmentally selected the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund because these funds had significant balances in revenue and expenditure accounts;
- We tested revenue and expenditure transactions in the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedules 1 and 2);
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation; and
- We recalculated sampled funds to ensure that fund balances as of June 30, 2019, were accurate and in compliance with applicable criteria.

We found that fund balances for the tested funds were properly reported. Schedule 3—Summary of Fund Balances and Fund Balance Test Results, presents by Fund, total balances and changes in fund balances.

We conducted this performance audit under the authority of GC section 77206(h) and 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 review of the court's internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit the court's financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

Follow-up on Prior Audit Findings

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC's Internal Audit Services, which issued a report in June 2018. We are not including any follow-up to matters presented in JCC's prior report.

Views of Responsible Officials

We discussed our audit results with the Court's representatives during an exit conference conducted on January 29, 2021. Brian Taylor, Court Executive Officer, and Agnes Shappy, Court Financial Officer, agreed with the audit results. Mr. Taylor declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

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

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

February 24, 2021

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2018, through June 30, 2019**

Revenue Accounts	Total Revenues ¹	Percentage	Amounts Tested ¹	Percentage	Error Amounts
<u>State Financing Sources²</u>					
Trial Court Trust Fund ³	\$ 24,383,435	82.7%	\$ 24,383,435	100.0%	\$ -
Improvement and Modernization Fund	55,160	0.2%	3,176	5.8%	-
Judges Compensation	178,392	0.6%	15,833	8.9%	-
Court Interpreter	699,503	2.4%	217,150	31.0%	-
MOU Reimbursements	649,579	2.2%	101,387	15.6%	-
Other Miscellaneous	353,778	1.2%	353,778	100.0%	-
Sub-total	26,319,847		25,074,759		
<u>Grants²</u>					
AB 1058 Commissioner/Facilitator	677,106	2.3%	52,207	7.7%	-
Other Judicial Council Grants	234,063	0.8%	13,375	5.7%	-
Non-Judicial Council Grants	603,444	2.0%	29,000	4.8%	-
Sub-total	1,514,612		94,582		
<u>Other Financing Sources²</u>					
Interest Income	171,663	0.6%	3	0.0%	-
Local Fees	613,575	2.1%	6,812	1.1%	-
Non-Fee Revenues	196,251	0.7%	38,775	19.8%	-
Enhanced Collections	26,515	0.1%	8,796	33.2%	-
Escheatment	140,464	0.5%	129,796	92.4%	-
County Program - Restricted	463,738	1.6%	22,749	4.9%	-
Reimbursement Other	13,994	0.0%	2,967	21.2%	-
Other Miscellaneous	10,269	0.0%	5	0.0%	-
Sub-total	1,636,469		209,902		
Total Revenues	\$ 29,470,927	100%	\$ 25,379,243	86.1%	\$ -

¹ Differences due to rounding.

² Tested account internal controls.

³ Material account.

**Schedule 2—
Summary of Expenditures and Expenditure Test Results
July 1, 2018, through June 30, 2019**

Expenditure Accounts	Total Expenditures ¹	Percentage	Amounts Tested ¹	Percentage	Error Amounts
<u>Personal Services²</u>					
Salaries – Permanent ³	\$ 13,806,241	48.13%	\$ 1,057,647	7.7%	\$ -
Temp Help	63,618	0.22%	-	0.0%	-
Overtime	55,904	0.19%	5,899	10.6%	-
Staff Benefits ³	8,640,097	30.12%	649,617	7.5%	-
Sub-total	22,565,860		1,713,163		-
<u>Operating Expenses and Equipment²</u>					
General Expense	607,373	2.12%	1,618	0.3%	-
Printing	61,189	0.21%	71	0.1%	-
Telecommunications	141,441	0.49%	892	0.6%	-
Postage	176,845	0.62%	36	0.0%	-
Insurance	11,932	0.04%	1,470	12.3%	-
In-State Travel	30,118	0.10%	686	2.3%	-
Out of State Travel	13,070	0.05%	1,666	12.7%	-
Training	23,990	0.08%	202	0.8%	-
Security Services	564	0.00%	47	8.3%	-
Facility Operations	576,781	2.01%	856	0.1%	-
Utilities	5,452	0.02%	453	8.3%	-
Contracted Services ³	1,951,383	6.80%	14,475	0.7%	-
Consulting and Professional Services	37,605	0.13%	225	0.6%	-
Information Technology ³	1,263,486	4.40%	604	0.0%	-
Major Equipment	338,928	1.18%	290,432	85.7%	-
Other Items of Expense	15,594	0.05%	864	5.5%	-
Sub-total	5,255,750		314,596		-
<u>Special Items of Expense</u>					
Grand Jury	-	0.00%	-	0.0%	-
Jury Costs ²	206,867	0.72%	142	0.1%	-
Judgements, Settlements, Claims ²	29,064	0.10%	5,395	18.6%	-
Debt Service	-	0.00%	-	0.0%	-
Other ²	630,000	2.20%	630,000	100.0%	-
Capital Costs	-	0.00%	-	0.0%	-
Internal Cost Recovery	-	0.00%	-	0.0%	-
Prior Year Expense Adjustment	-	0.00%	-	0.0%	-
Sub-total	865,931		635,537		-
Total Expenditures	\$ 28,687,541	100.00%	\$ 2,663,295	9.3%	\$ -

¹ Differences due to rounding.

² Tested account internal controls.

³ Material account.

Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2018, through June 30, 2019

	General Fund ¹	Non-Grant Special Revenue Fund ¹	Grant Special Revenue Fund ¹	Total ¹
Beginning Balance	\$ 443,575	\$ 1,027,291	\$ -	\$ 1,470,866
Revenues	27,077,206	938,703	1,455,019	29,470,927
Expenditures	(26,389,002)	(814,131)	(1,484,409)	(28,687,541)
Transfers In	-	21,469	29,390	50,859
Transfers Out	(50,859)	-	-	(50,859)
Ending Balance	<u>\$ 1,080,920</u>	<u>\$ 1,173,332</u>	<u>\$ (0)</u>	<u>\$ 2,254,252</u>
<u>Error Amounts</u>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding.

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