



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

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

AUDITS AND FINANCIAL ACCOUNTABILITY COMMITTEE

OPEN MEETING 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:	July 15, 2021
Time:	12:15 – 1:15 PM
Public Videocast:	jcc.granicus.com/player/event/1314

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

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

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

Call to Order and Roll Call

Opening Comments by the Chair and Vice-Chair

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

Approval of Minutes

Approve minutes of the March 10, 2021 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 July 14th, 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): Dawn Tomita, Audit Supervisor – 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): Dawn Tomita, Audit Supervisor – Judicial Council's Audit Services

IV. DISCUSSION AND POSSIBLE ACTION ITEMS

Item 1

Revisions to the Judicial Branch Contracting Manual (Action Required)

Review and approve the proposed changes to the Judicial Branch Contracting Manual per California Rules of Court, Rule 10.63(c)(3), as well as the accompanying report to the Judicial Council.

Presenter(s)/Facilitator(s):

Oliver Cheng, Attorney – Judicial Council's Legal Services

John Prestianni, Supervising Attorney – Judicial Council's Legal Services

Item 2

Annual Audit Plan – Fiscal Year 2021-22 (Action Required)

Discuss and approve the scope of audits for fiscal year 2021-22, including the high-risk areas and judicial branch entities to be audited, based on available audit resources.

Presenter(s)/Facilitator(s): Dawn Tomita, Audit Supervisor – 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 Placer 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): Dawn Tomita, Audit Supervisor – 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 Kern Superior Court’s revenues, expenditures, and fund balance for fiscal year 2018-19. 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): Dawn Tomita, Audit Supervisor – Judicial Council’s Audit Services

Item 5

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

Review and approve for public posting the State Controller’s recent audit of Merced Superior Court’s revenues, expenditures, and fund balance for fiscal year 2018-19. 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): Dawn Tomita, Audit Supervisor – Judicial Council’s Audit Services

Item 6

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

Review and approve for public posting the State Controller’s recent audit of Stanislaus Superior Court’s revenues, expenditures, and fund balance for fiscal year 2018-19. 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): Dawn Tomita, Audit Supervisor– Judicial Council’s Audit Services

V. ADJOURNMENT

Adjourn to closed session.

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

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

Presenter(s)/Facilitator(s): Michelle O’Connor, Senior Auditor – Judicial Council’s Audit Services

Item 8

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

Presenter(s)/Facilitator(s): Michelle O’Connor, Senior Auditor – Judicial Council’s Audit Services

Item 9

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 Mariposa 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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MINUTES OF OPEN MEETING WITH CLOSED SESSION

March 10, 2021
12:15 p.m. - 1:15 p.m.
Conference Call

Advisory Body Members Present: Hon. David Rosenberg, Hon. Peter Siggins, Hon. Mary Ann O'Malley, Mr. Kevin Lane (joined the meeting during discussion of Action Item #3), Mr. Neal Taniguchi, Mr. Phil Jelcich (non-voting advisory member)

Advisory Body Members Absent: Hon. Arthur A. Wick, 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. Joe Meyer (Senior Auditor, Audit Services Office), Mr. Robert Fleshman (Court Executive Officer, Napa County Superior Court), Ms. Maria Rhinehart (Court Executive Officer, Imperial County Superior Court), Mr. Baltazar Vazquez (Assistant Clerk/Executive Officer, 6th District Court of Appeal), Ms. Lucy Chin (Administrative Specialist, 6th District Court of Appeal)

OPEN MEETING

Call to Order and Roll Call

The chair welcomed committee members and called the meeting to order at 12:20 p.m. and took roll call.

Approval of Minutes

Justice Siggins moved to approve the minutes of the July 14, 2020 meeting. Judge O'Malley 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. Audit Services currently has audits underway at Amador, Mariposa, Mono, Sonoma, Riverside, Santa Clara, and Shasta Superior Courts. With respect to external audits for the judicial branch, the State Controller's Office (SCO) continues its work on auditing revenues, expenditures, and fund balances of superior courts. The SCO has selected five additional courts to audit during the

next fiscal year: Colusa, Tulare, San Diego, Ventura, and Yuba Superior Courts. Available funding for external audits was reduced by the Legislature. Recently Mr. Parks was notified by JCC budget staff that there was a legislative drafting error, and spending authority is limited to \$540,000 per year (not roughly \$1 million). Therefore, instead of roughly fifteen audits per year, the committee can expect to receive four to five audits per year from the State Controller's Office. In addition, the SCO started an audit of the Judicial Council's revenues, expenditures, and fund balance. This audit is expected to be concluded in August. Finally, the State Auditor's Office will be auditing Judicial Council's procurement practices, and this audit should be completed in December of 2021.

Justice Siggins asked Mr. Parks if he expects to fill vacant positions and whether Audit Services' auditors are expected to resume cash handling audits. Mr. Parks responded that he does not expect to fill those vacant positions in the short term, but he continues to have discussions with Budget Services. With respect to the resumption of cash handling testing, there is no specific time as to when the auditors will resume travel to perform reviews of cash handling procedures.

Info 2

General Discussion by Audit Committee Members

No items discussed.

Action Item 1

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

The State Auditor is required to audit court compliance with the Judicial Branch Contract Law per Public Contract Code, Section 19210(a). State Auditor most recently reviewed Alameda, Contra Costa, Lake, Orange, and San Bernardino for FY 19-20. Overall, the conclusion was that the trial courts adhered to most of the required or recommended contracting practices. However, the auditors identified a few areas to improve. These areas of improvement include following proper protocols for authorizing payments to vendors, and consistently reporting contracts over \$1,000,000 to the State Auditor's Office as required by law. In addition, the State Auditor also recommended some practices and improvements to court local contracting manuals to ensure legal counsel at the court or (Judicial Council) are consistently involved when developing solicitations that are high value or high risk. Staff recommended the committee approve this audit report for public posting.

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

Action Item 2

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

Mr. Parks summarized the audit by stating San Joaquin Superior Court had complied with statute for the recording of revenues, expenditures, and fund balances for fiscal year 2017-18. Nevertheless, the State Controller did identify few issues. One of them was how revenue transactions were posted in Phoenix system. In one instance, the wrong general ledger codes were used. The net effect of this issue was minimal and did not disrupt the overall presentation of court’s financial statements. In another example, the court didn’t have sufficient documentation to support a transaction pertaining to an \$1,800 expense. The State Controller also recommended the court improve documentation of personnel action forms (signed by the employees), to better document authorized salaries. Mr. Parks recommended the committee approve the audit for posting on the council’s website.

Action: Judge O’Malley moved to approve posting of this audit report on Judicial Council’s website (seconded by Mr. Taniguchi). The motion passed by unanimous voice vote of the committee members present.

Action Item 3

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

Overall, El Dorado Superior Court complied with governing statutes for revenues, expenditures, and fund balances under the court’s control. The auditors did note some issues regarding the recording of revenue. Specifically, in its enhanced collections program, the court missed an opportunity to claim more revenue for court expenses by using a higher indirect cost rate. In its response, the Court stated it was using lower rate and was being conservative, thus allowing more funds to be passed on to the State and county. The Court agreed to have further discussions with JCC collections staff to refine the Court’s procedures for how it applies the indirect cost rate. Finally, the auditors noted eight prior-year transactions pertaining to fiscal year 2016-2017 that were posted as current year expenses in fiscal year 2017-2018. As a result, the court was not using proper GL account to record these prior year expenditure adjustments. The court agreed to continue working with JCC accounting staff to better understand and consistently use the correct general ledger accounts. Mr. Parks recommended to approve posting this report on the council’s website.

Action: Judge O’Malley moved to approve posting of this audit report on Judicial Council’s website (seconded by Justice Siggins). The motion passed by unanimous voice vote of the committee members present.

Action Item 4

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

State Controller’s Office found that Solano Superior Court complied with all governing statutes for revenues, expenditures, and fund balances. The auditors did not identify any findings.

Action: Judge O’Malley moved to approve posting of this audit report on Judicial Council’s website (seconded by Mr. Taniguchi). The motion passed by unanimous voice vote of the committee members present.

A D J O U R N M E N T

There being no further open meeting business, the meeting was adjourned to closed session at 12:55 p.m.

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

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

Action: Judge O'Malley moved to approve this report for posting (seconded by Justice Siggins). 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 Napa Superior Court, per Rule of Court 10.63(c)(1).

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

Item 7

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

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

Adjourned closed session at 1:15pm.



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Meeting Date: 7/15/2021

Action Item #1 – (Action Required)

Revisions to the Judicial Branch Contracting Manual (JBCM)

Requested Action:

- **Action Item #1** – Discuss and approve:
 - The draft report to Judicial Council highlighting JBCM revisions
 - The red-line changes to the JBCM

Supporting Documents:

- ***Attachment A***—Draft Judicial Council report and red-line changes to JBCM

Background:

One of the audit committee’s primary responsibilities under California Rules of Court, Rule 10.63(c)(3) is to “review and recommend to the council proposed updates and revisions to the *Judicial Branch Contracting Manual*...” The Judicial Council’s Office of Legal Services has prepared the attached revisions to the JBCM based on changes in statute. The proposed revisions were available for public comment.

Committee staff recommend approval of: (1) the draft report to council and (2) the red-lined changes to the JBCM.



JUDICIAL COUNCIL OF CALIFORNIA

455 Golden Gate Avenue · San Francisco, California 94102-3688

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REPORT TO THE JUDICIAL COUNCIL

Item No. 21-129

For business meeting on: September 30–October 1, 2021

Title	Agenda Item Type
Judicial Branch Administration: Revisions to <i>Judicial Branch Contracting Manual</i>	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	October 15, 2021
Recommended by	Date of Report
Advisory Committee on Audits and Financial Accountability for the Judicial Branch Hon. David Rosenberg, Chair	July 15, 2021
	Contact
	Oliver Cheng, Attorney 415-865-4616 oliver.cheng@jud.ca.gov

Executive Summary

The Advisory Committee on Audits and Financial Accountability for the Judicial Branch recommends that the Judicial Council adopt proposed revisions to the *Judicial Branch Contracting Manual*. The proposed revisions include edits regarding waivers of the Disabled Veteran Business Enterprise (DVBE) incentive, as well as edits regarding judicial branch entities' reporting requirements, to reflect amendments to Public Contract Code section 19209.

Recommendation

The Advisory Committee on Audits and Financial Accountability for the Judicial Branch recommends that the Judicial Council, effective October 15, 2021, adopt proposed revisions to the *Judicial Branch Contracting Manual*.

The proposed revisions to the *Judicial Branch Contracting Manual* are shown in Track Changes in Attachment A.

Relevant Previous Council Action

At the Judicial Council’s regular business meeting on August 26, 2011, the council adopted the initial version of the *Judicial Branch Contracting Manual* (referred to as the JBCM or manual), effective October 1, 2011, the operative date of substantive requirements of the California Judicial Branch Contract Law (JBCL).¹ In December 2011, April and August 2012, December 2013, June 2015, June 2016, July 2017, July 2018, September 2019, and September 2020, the council adopted revisions to the JBCM. The version of the JBCM adopted by the council on September 25, 2020, effective October 1, 2020, remains in effect as of the date of this report.²

Analysis/Rationale

Statutory requirement and development of the JBCM

The JBCL was enacted on March 24, 2011, and became effective on that date. With certain exceptions,³ the JBCL requires that superior and appellate courts, the Judicial Council, and the Habeas Corpus Resource Center (referred to collectively as judicial branch entities, or JBEs) comply with provisions of the Public Contract Code applicable to state agencies and departments related to the procurement of goods and services.⁴ The JBCL applies to all covered contracts initially entered into or amended by JBEs on or after October 1, 2011.⁵ The JBCL also requires the council to adopt a manual containing procurement and contracting policies and procedures that must be followed by all JBEs.⁶

This report is being submitted by the Advisory Committee on Audits and Financial Accountability for the Judicial Branch (Audit Committee) pursuant to rule 10.63 of the California Rules of Court. Under rule 10.63, the duties of the Audit Committee include (1) advising and assisting the council in performing its responsibilities and exercising its authority under the JBCL, and (2) reviewing and recommending to the council proposed updates and revisions to the JBCM.⁷

The policies and procedures in the manual must be “consistent with [the Public Contract Code] and substantially similar to the provisions contained in the *State Administrative Manual* and the *State Contracting Manual*.”⁸ The requirement that JBEs comply with applicable provisions of the Public Contract Code is independent of the requirement that JBEs follow the policies and

¹ Pub. Contract Code, §§ 19201–19210.

² The current version of the JBCM is at: <https://www.courts.ca.gov/documents/jbcl-manual.pdf>.

³ *Id.*, §§ 19204(c), 19207, and 19208.

⁴ *Id.*, § 19204(a).

⁵ *Id.*, § 19203.

⁶ *Id.*, § 19206.

⁷ Cal. Rules of Court, rule 10.63(c)(2)–(c)(3).

⁸ Pub. Contract Code, § 19206.

procedures in the JBCM. Since the adoption of the initial JBCM, Judicial Council staff has continued to receive input from the JBCM Working Group regarding proposed revisions to the JBCM, and the council has adopted 10 sets of revisions.

Proposed revisions to the JBCM

Edits are proposed for Chapter 3 (pages 5–6) of the JBCM, as a result of *State Contracting Manual* (SCM) revisions regarding the Disabled Veteran Business Enterprise (DVBE) incentive. The new SCM provisions include additional guidance on factors that may be considered when determining waivers of the DVBE incentive, as well as additional procedures on DVBE waiver forms.⁹ As mentioned above, the JBCL requires the JBCM to be substantially similar to the SCM. Therefore, additional provisions regarding DVBE waiver factors and DVBE waiver forms are proposed for the JBCM, Chapter 3, which is the main chapter on the DVBE incentive.

Assembly Bill 3364¹⁰ amended Public Contract Code section 19209 (which is part of the JBCL) by changing judicial branch entities' reporting requirements.¹¹ For example, reports related to court contracts and payments that were previously required by section 19209 to be submitted twice a year to the Joint Legislative Budget Committee and the State Auditor, are now required to be submitted once a year. The amended section 19209 also contains new provisions regarding reporting through the Financial Information System for California (FISCal). Edits are proposed for Chapter 12 (Reporting Requirements) of the JBCM, so that Chapter 12's descriptions of reporting requirements reflect the amended section 19209. In addition, edits are proposed for section 12.2 of Chapter 12, to facilitate judicial branch entities' notifications to the California State Auditor, as required under Public Contract Code 19204(a).¹² For example, proposed edits include listing the email address established by the State Auditor for judicial branch entities' notifications under section 19204(a).

Policy implications

As mentioned above, the JBCL requires the JBCM to be consistent with the Public Contract Code and substantially similar to the SCM. Adopting the proposed revisions regarding AB 3364's amendments to section 19209 will enable the JBCM to remain consistent with the Public Contract Code. The proposed edits regarding DVBE waivers will provide judicial branch entities

⁹ For example, see Chapter 3, Section 3.3.1 of the *State Contracting Manual* (Vols. 2–3, rev. Dec. 2020) at: <https://www.dgs.ca.gov/PD/Resources/Page-Content/Procurement-Division-Resources-List-Folder/State-Contracting-Manual>.

¹⁰ Stats. 2020, ch. 36.

¹¹ More information about AB 3364 is available at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB3364.

¹² Under Public Contract Code section 19204(a), all contracts with total cost estimated at more than \$1 million (except contracts covered by section 68511.9 of the Government Code) are subject to the review and recommendations of the California State Auditor to ensure compliance with the JBCL. Public Contract Code 19204(a) requires judicial branch entities to notify the State Auditor, in writing, of the existence of such contracts within 10 business days of entering into the contract.

with additional guidance on DVBE waivers, and also enable the JBCM to remain substantially similar to the SCM.

Comments

Following review by the JBCM Working Group, the proposed revisions to the JBCM were submitted for public comment from May 25 through June 9, 2021. The invitation to comment specifically sought input on whether the revisions were clear and understandable, appeared to work from a court operations perspective, and were user-friendly. No public comments were received.

Alternatives considered

None.

Fiscal and Operational Impacts

No significant costs or operational impacts will result from implementing the recommendations in this report.

Attachments

1. Attachment A: *Judicial Branch Contracting Manual*, with proposed revisions in Track Changes format

- Upon completion of the contract term, requiring each prime contractor with DVBE subcontractors to submit to the JBE certain certifications under MVC 999.5(d).

D. Adoption of Rules and Procedures for a DVBE Program

Each JBE must develop or adopt a set of rules and procedures for the implementation of a DVBE program. DGS has established a system of rules and regulations for managing the DVBE program that includes forms that may be adopted and modified by JBEs that wish to establish their own program. The Judicial Council's Business Services unit and the Legal Services office are available to assist courts in establishing a program.

Rules and procedures for the following must be established:

- A method for monitoring adherence to DVBE goals;
- Use of existing state government resources to assist in implementing the DVBE program; and
- Incentive amounts and a formula for incentive calculation for procurements that are subject to DVBE incentives.

Solicitation Documents should be drafted to include reference to DVBE procedures and contracts must include appropriate DVBE provisions.

E. Appointing a DVBE Advocate

Each JBE must designate a DVBE advocate whose duties include, but are not limited to:

- Identifying potential DVBE prime contractors or subcontractors and potential contracting opportunities; and
- Making information regarding pending solicitations available to and considering offers from certified DVBE firms capable of meeting the JBE's business needs. (MVC 999.12)

F. Waiver of a DVBE Incentive

Although all competitive procurements are subject to the DVBE incentive, a JBE, through its Procurement and Contracting Officer (PCO) or designee, has the discretion to waive inclusion of the DVBE incentive in an individual solicitation or a number of solicitations, including but not limited to where the following determining factors exist: (i)

few or no DVBE subcontracting opportunities exist, (ii) subcontracting a portion of the work is not normal for the industry, (iii) the work is so specialized that there are few or no DVBEs that can perform the work themselves without subcontracting it, or (iv) the work is a procurement pursuant to Government Code §§ 14838.5(a).² Note, however, that the overall DVBE participation goal of 3 percent of annual total contract value still applies. The JBE's PCO or designee must document the procurement file whenever the DVBE requirement has been waived, using a DVBE form that will include a signature from the PCO (or designee) authorizing the DVBE waiver, along with the reason(s) for waiving the DVBE incentive for the individual solicitation.

G. General Requirements for DVBE Procurements

1. Verifying Bidder Status as a DVBE

Verifying certification status: For competitive solicitations that include the DVBE incentive, JBEs must verify California DVBE certification status before a contract award regardless of the procurement approach. Status can be verified by accessing the DVBE services certified firm inquiry database, currently available at <https://caleprocure.ca.gov/pages/PublicSearch/supplier-search.aspx>

If this database is used in support of DVBE certification, a printout can simply be placed in the procurement file.

Business utilization plan alternative: There is an additional method for a Bidder to qualify as a DVBE for contracts for non-IT goods and for IT goods and services. For those procurements, a JBE must accept from a Bidder a DVBE business utilization plan (plan) in lieu of DGS certification (PCC 10115.15(a)). The use of a plan does not extend to non-IT service contracts.

A plan is a Bidder's written commitment to contract with certified DVBEs for at least 3 percent of its business's total contract dollars expended in California during the next year (i.e., the year after the year in which the contract is awarded). This 3-percent commitment applies to all business done by the Bidder in California, not just contracts with the State of California. The DGS procurement division provides plan approval. A plan is considered approved by the DGS on the date of submission

² A JBE may determine that a fiscal emergency exists necessitating the temporary suspension of the JBE's DVBE program. If a JBE suspends its program due to a fiscal emergency, the JBE should have the Approving Authority, or his/her appointee, document the extent of and reasons for the suspension.

INTRODUCTION

This chapter describes the Judicial Council's obligations under PCC 19209 to provide reports to the Joint Legislative Budget Committee and the State Auditor relating to ~~the "procurement of contracts" by any Judicial Branch Entity (JBE). In connection with these reports~~ superior court contracts and payments, and the obligation of JBEs using the Financial Information System for California (FI\$Cal) to make their contract and payment information available for the state's transparency websites. In connection with this reporting and FI\$Cal-related obligation, this chapter describes the role of each JBE in providing information related to the JBE's contracts with Vendors ~~to be included in the reports.~~

This chapter also describes the obligations under PCC 19204(a) of all JBEs to notify the State Auditor of certain contracts with total costs estimated at more than \$1 million.

DEFINED TERMS

If not defined in the text of this chapter, the definitions of capitalized terms are set forth in the glossary.

12.1 JUDICIAL COUNCIL REPORTS UNDER PCC 19209

A. Reporting ~~Periods~~Period

The Judicial Council will annually provide ~~two semiannual reports each year~~ a report to the Joint Legislative Budget Committee and the State Auditor as required by PCC 19209. ~~One report will cover no later than September 30 of each year, covering the period from January 1 through state fiscal year ending June 30, and will be provided by August 1. The other report will cover the period from July 1 through December 31, and will be provided by February 1 of the following year. of that year.~~

B. Content of ~~Reports~~Report

The Judicial Council report will include a list of all Vendors that receive a payment from a ~~JBE~~ superior court during the reporting period. ~~PCC 19209 also requires the Judicial Council to submit additional information on each distinct contract between a Vendor and a JBE, but only if more than one payment was made under the distinct contract during the reporting period.~~ For each ~~distinct contract~~ Vendor, the report will include the following information ~~by Vendor~~:

- The ~~JBE~~ superior court(s) that contracted for the good or service;

- The amount of payment; and
- The type of service or good provided.

The report will also include a list of all JBE superior court contracts that were made or amended during the reporting period. The report will contain the following information by Vendor for each distinct contract that was amended:

- The name of the Vendor;
- The type of service or good provided;
- The nature of the any amendment;
- The duration of the any amendment; and
The cost of the any amendment.

C. Responsibility of JBEs to Provide Information for Reports

~~**D.C. SUPREME COURT:** the Judicial Council's Branch Accounting and Procurement office maintains information relating to payments to and contracts with the Supreme Court's Vendors. The Supreme Court is responsible for coordinating with the Judicial Council's Branch Accounting and Procurement office, as appropriate, to ensure the information relating to payments to, and contracts with, the Supreme Court's Vendors is accurate, consistent, and complete.~~ **Council Report**

~~**Courts of Appeal:** The Judicial Council's Branch Accounting and Procurement office maintains information relating to payments to and contracts with Vendors of each Court of Appeal. Each Court of Appeal is responsible for coordinating with the Judicial Council's Branch Accounting and Procurement office, as appropriate, to ensure the information relating to payments to, and contracts with, Vendors is accurate, consistent, and complete.~~

Superior Courts: The Phoenix Statewide Financial System (Phoenix) is the source of information for compiling reports relating to payments during a reporting period by each superior court to Vendors and relating to contracts between Vendors and each superior court. Each superior court is responsible for ensuring that the information in Phoenix relating to payments to, and contracts with, that superior court's Vendors is accurate, consistent, and complete.

~~**Habeas Corpus Resource Center (HCRC):** The Judicial Council's Branch Accounting and Procurement office maintains information relating to payments to and contracts with Vendors of the HCRC. The HCRC is responsible for coordinating with the Judicial~~

~~Council's Branch Accounting and Procurement office, as appropriate, to ensure the information relating to payments to, and contracts with, the HGRG's Vendors is accurate, consistent, and complete.~~

Judicial Council: The Judicial Council's Branch Accounting and Procurement office is responsible for maintaining and providing accurate, consistent, and complete information relating to payments to, and contracts with, Vendors of the Judicial Council.

All JBE personnel involved in maintaining and providing the necessary information for reports should have the appropriate training, experience, level of responsibility, and accountability as is necessary to ensure the accuracy, completeness, and consistency of the information in the reports provided by the Judicial Council.

E.D. Responsibility to Prepare ~~Reports for Judicial Council~~ Report

The Judicial Council's Branch Accounting and Procurement office is responsible for preparing the ~~portion of the~~ Judicial Council ~~reports that relates to the Supreme Court, Courts of Appeal, Judicial Council, and HGRG~~ report.

~~The Judicial Council's Trial Court Administrative Services office (TCAS) is responsible for preparing the portion of the Judicial Council reports that relates to the superior courts.~~

~~The Judicial Council's Branch Accounting and Procurement office and TCAS are responsible for coordinating with each other to ensure that all information to be included in the Judicial Council reports is reported timely, accurately, and in a consistent form and format.~~

The Judicial Council's Branch Accounting and Procurement office has lead responsibility for ~~presenting the reports to the Judicial Council for approval for submission to the Joint Legislative Budget Committee~~ compiling the superior courts' contracting and vendor payment data and reporting it to the Legislature and the State Auditor.

E. FI\$Cal-related Responsibility

As required by PCC 19209, JBEs using FI\$Cal shall participate with the state's transparency effort by making their contract and payment information available for the

state's transparency websites on a rolling basis. Each JBE shall ensure their contract and payment information is entered in FI\$Cal for the state transparency websites and for state department audit purposes. The Judicial Council's Branch Accounting and Procurement office is available to assist JBEs in their responsibilities for entering this information.

12.2 NOTIFICATIONS BY JBEs TO THE STATE AUDITOR UNDER PCC 19204

Under PCC 19204(a), any JBE contract with a total cost estimated at more than \$1 million is subject to the review and recommendations of the State Auditor¹ to ensure compliance with the California Judicial Branch Contract Law. Each JBE must notify the State Auditor, in writing, of the existence of any such contract within 10 Court Days of entering into the contract. The date of "entering into the contract" is the date on which the contract is fully executed by all parties. The State Auditor has established the following email account for receiving the foregoing notifications:

judicial.branch.contracts@auditor.ca.gov

Notes: Excluded from this requirement are contracts covered by GC 68511.9, which covers contracts for the California Case Management System and all other administrative and infrastructure information technology projects of the Judicial Council or the courts with total costs estimated at more than \$5 million. (Under GC 68511.9, these contracts are subject to the review and recommendations of the California Department of Technology.²)

A JBE is not required to notify the State Auditor of amendments to an existing contract if the JBE previously notified the State Auditor of the existence of such contract pursuant to PCC 19204(a).

If a contract that initially had total costs estimated at \$1 million or less, is subsequently amended such that total estimated costs now exceed \$1 million, the contract must be reported in accordance with PCC 19204(a), within 10 Court Days of the amendment.

¹ PCC 19204(a) refers to the Bureau of State Audits; the Bureau of State Audits, however, now refers to itself as the California State Auditor's Office. This Manual uses the term State Auditor.

² GC 68511.9 refers to the office of the State Chief Information Officer, which subsequently became the California Technology Agency, and then the California Department of Technology.



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 7/15/2021

Action Item #2 – (Action Required)

2021-2022 Annual Audit Plan

Requested Action:

- **Action Item #2** – Discuss and approve the draft annual audit plan for fiscal year 2021-22.

Supporting Documents:

- ***Attachment B***—Draft Audit Plan (Fiscal Year 2021-22).

Background:

One of the audit committee’s primary responsibilities under California Rules of Court, Rule 10.63(c)(1) is to “review and approve a yearly audit plan for the judicial branch...” The proposed audit plan for fiscal year 2021-22 is provided as Attachment E and represents audit staff’s recommendations to the committee for what should be audited for the coming year. The recommended plan is based on a variety of factors, including areas of risk at the courts and available audit resources within Audit Services.

Last Year’s Audit Findings

Audit work was significantly curtailed during FY 2020-21 with the suspension of audit-related travel. Audit Services also delayed or slowed several audits at the courts’ requests so they could focus on local responses to the pandemic. Nevertheless, the audit committee received six audit reports in FY 2020-21 containing 17 audit findings. The courts agreed with 10 of the findings and partially agreed with the other seven.

- Cash Handling (10 of 17; 58.8%)
- Vendor Payment Processing (3 of 17; 17.6%)
- All other areas (1 finding each)

The 10 cash handling findings pertained to carryover audits initiated prior to the suspension of travel and audit testing of cash handling controls.

Revisions to the Audit Plan for Fiscal Year 2020-21

Audit Services proposes the following changes to the audit plan:

- ***Resume testing of cash handling controls:*** Audit Services tentatively plans to resume travel to the courts beginning in September 2021, which would include the testing of the cash handling internal controls cited in the FIN Manual. This has historically been an area with the largest number of audit findings.
- ***Resume testing court interpreter payments:*** The Judicial Council approved the new payment policy in March 2021 and audit staff will include this requirement for audits beginning on or after January 2022 (to give courts time to implement the policy). The committee had previously suspended testing in this area until the new policy was approved by the council. This will become part of our accounts payable testing.
- ***Add testing of enhanced collections:*** Statute establishes the requirements courts must first satisfy before operating a collections program. Potential areas of risk include the courts improperly keeping revenues obtained from delinquent debtors in excess of the court's actual costs of collecting that debt. Audit Services believes there is value in adding this testing to the audit program.
- ***Reduce scope of revenue distribution testing*** – Audit Services often tests 18 different distributions; however, only 12 distributions normally have audit findings. As a result, Audit Services plans to limit its reviews to historically problematic distributions (such as those pertaining to DUI, speeding, reckless driving, and red-light violations and traffic violator school). We plan to suspend testing other distributions such as: proof of corrections, child safety seat violations; proof of insurance, and various other distributions under the Health & Safety and Fish & Game codes.
- ***Reduce scope of fund balance testing:*** State law increased the statutory cap on trial court fund balances that may be carried over from the prior fiscal year. Audit Services plans to suspend testing of compliance with the statutory cap on fund balance; however, it will continue to review reported encumbrances at fiscal year-end to ensure the FIN Manual's encumbrance policies are followed. When applicable, Audit Services will still review court spending on projects where the funds had been held by the council "on behalf" of the trial courts.

These proposed changes translate to the following budget changes to how audit staff spend their time performing the various testing activities described in the audit plan. For FY 21-22; cash

handling and JBSIS will take up most of the audit team’s time. Expected savings in reduced work for fund balance and revenue distribution testing is offset by the addition of enhanced collections to the plan. Audit Services proposes to keep the AB 1058 program on the audit plan for another year and then re-evaluate with input from the committee next year. Overall, the revisions to the audit plan will result in an additional 380 hours of work on average (per court), as shown in the table below.

Budgeted hours by Fiscal Year			
	<u>Current</u>	<u>Proposed</u>	
	<i>2020-2021</i>	<i>2021-2022</i>	Change
Scoping	24	24	-
Cash*	-	280	280
Procurement	80	80	-
Accounts Payable	40	40	-
JBSIS	120	120	-
Fund Balance	40	32	(8)
Revenue Distribution	40	32	(8)
AB 1058 Grants	40	40	-
Enhanced Collections	-	40	40
AIC Leading/Review**	90	166	76
Finding Development	40	40	-
Report Writing	40	40	-
<i>Total</i>	554	934	380

* Based on the assumption of a medium size superior court

** Based on 25% of all fieldwork

Proposed Audit Schedule (FY 2021-22)

The proposed schedule below—taken from Table 3 of the attached audit plan—is based on those courts with the greatest elapsed time since their prior audit by the council, while also considering the State Controller’s planned audits. Based on the SCO’s anticipated audit schedule, Audit Services plans to delay audits of San Joaquin, Sonoma, and Yuba superior courts. Audit

Services has kept the audit of Monterey on the Judicial Council’s audit schedule since the SCO reports finishing this audit and is planning the exit conference with the court and county.

		Fiscal Year 2021-22											
		July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services													
Court Audit Team #1	Sutter					Tuolumne					Plumas		
			Stanislaus					Santa Barbara				Mendocino	
Court Audit Team #2	Inyo / Del Norte / Amador				Nevada					Monterey			
			El Dorado				Orange					Marin	
Internal Review Team	Internal Reviews												
State Controller's Office	Audit of Trial Court Revenues, Expenditures & Fund Balance - GC 77206(h) [5 superior courts - Yuba, Colusa, Ventura, Tulare, and TBD]												
	Trial Court Fine & Fee Revenue Distribution Audits - GC 68103 [14 superior courts - Amador, Santa Cruz, San Joaquin, Kern, Monterey, Alpine, Tulare, San Diego, Sonoma, Tehama, Modoc, Lake, Placer, Kings]												
State Auditor's Office	Judicial Council Procurement Audit - PCC 19210(c)												
	Statewide Financial Statement Audit of FY 2020-21 (all State Agencies)												

Schedule of Current and Planned Audits

The table below provides a listing of the audits scheduled for FY 21-22 (including those currently in progress), as well as those likely to be selected for next year's schedule.

Appellate / Superior Court	Date of Last Audit Report	(Current Plan)		(Next Year)	
		FY 2021-22	FY 2022-23	Appellate / Superior Court	Date of Last Audit Report
32. Plumas	January-11	X		15. Kern	August-16
45. Shasta	January-11	IP		31. Placer	October-17
3. Amador	April-11	IP		24. Merced	January-18
9. El Dorado	April-11	X		4. Butte	April-18
39. San Joaquin	April-11		Y	3rd DCA	May-18
49. Sonoma	April-11		Y	48. Solano	June-18
2. Alpine	July-11	IP		6. Colusa	June-18
14. Inyo	July-11	IP		5. Calaveras	June-18
43. Santa Clara	December-11	IP		47. Siskiyou	October-18
55. Tuolumne	February-12	X		56. Ventura	December-18
50. Stanislaus	April-12	X		34. Sacramento	December-18
8. Del Norte	September-12	IP		5th DCA	February-19
42. Santa Barbara	November-12	X		11. Glenn	February-19
27. Monterey	December-12	X		4th DCA	March-19
30. Orange	December-12	X		35. San Benito	June-19
19. Los Angeles	February-13		Y	38. San Francisco	June-19
1. Alameda	March-13		Y	44. Santa Cruz	June-19
23. Mendocino	July-13	X		25. Modoc	October-19
58. Yuba	August-13		Y	53. Trinity	October-19
21. Marin	October-13	X		52. Tehama	February-20
51. Sutter	November-13	X		46. Sierra	February-20
20. Madera	June-14			18. Lassen	February-20
29. Nevada	July-14	X		41. San Mateo	February-20
17. Lake	August-14			37. San Diego	July-20
40. San Luis Obispo	December-14			2nd DCA	July-20
36. San Bernardino	January-15			1st DCA	July-20
57. Yolo	February-15			28. Napa	April-21
54. Tulare	July-15			6th DCA	April-21
16. Kings	October-15			13. Imperial	April-21
12. Humboldt	December-15			33. Riverside	June-21
7. Contra Costa	February-16			26. Mono	June-21
10. Fresno	June-16			22. Mariposa	June-21

Notes:

"IP" = In progress

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

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



**JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2021-22**



JUDICIAL COUNCIL
OF CALIFORNIA

AUDIT SERVICES

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BACKGROUND

The Audit Committee

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

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

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

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

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

Purpose of the Annual Audit Plan

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

Audit Services’ Role

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

The Role of External Audit Agencies

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

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

State Auditor's Office – performs the following audits:

- Financial statement audits of the State's annual comprehensive report, as prepared by the SCO in accordance with Generally Accepted Accounting Principles. [Govt. Code, Section 8546.3]
- Discretionary audits as directed by the Joint Legislative Audit Committee. [Govt. Code, Section 8546.1]
- Audits of the Judicial Council and other judicial branch entities' compliance with the Judicial Branch Contract Law. [Pub. Contract Code, Section 19210]

State Controller's Office – performs the following audits:

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

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

ANNUAL AUDIT PLAN

Risk Assessment Background

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

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

Any single risk area may overlap with more than one of the three risk categories defined above. For example, certain reports—such as JBSIS case filing reports—have a reporting risk component in that the data reported must be accurate and complete to support trial court funding allocations, along with a compliance component since the Judicial Council has established definitions for what constitutes a new case filing and how a filing should be categorized by case type. Another example would be the court’s reporting of encumbrances at fiscal year-end, which the Judicial Council uses to help monitor court compliance with statutory caps on each court’s fund balance. Audit Services considers risk areas that cross over into more than one risk category to be indicative of higher risk.

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

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

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

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

Risk Areas, Assessed Level of Risk, and Auditing Entities

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

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

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

To the extent that Audit Services notes systemic and recurring issues at multiple courts, this too is considered as part of the risk-assessment process. Of the six audits reviewed by the audit committee in 2020-21, there was a total of 17 findings (10 of which pertained to cash handling,

or 58.8%). Even though last year’s audit plan suspending cash handling testing, the two courts that had cash handling findings were carryover audits from the prior FY 19-20 audit plan that were finalized in FY 20-21. The next most frequent categories of audit findings were payment processing-related findings (3 findings or 17.6%), followed by one finding each for revenue distribution, fund balance, JBSIS data reporting and procurement.

Table 2 – Recap of FY 20-21 Audit Findings

Standard Audit Scope - Superior Courts				
Areas and Sub-Areas Subject to Review		In Scope for FY 21-22?	Audit Findings from Prior Year (6 court audits)	
			# of Findings in FY 20-21	Common Compliance Issues
Cash Handling				
1	Daily Opening Process	Yes*	1	
2	Voided Transactions	Yes*	0	
3	Handwritten Receipts	Yes*	0	
4	Mail Payments	Yes*	4	Timely Endorsements; No Payment Receipt Logs; Prompt Processing
5	Internet Payments	Yes*	0	
6	Change Fund	Yes*	2	End of Day Reconciliations, Periodic Independent Counts of Funds
7	End-Of-Day Balancing and Closeout	Yes*	1	
8	Bank Deposits	Yes*	1	
9	Other Internal Controls	Yes*	1	
Procurement and Contracts				
10	Procurement Initiation	Yes	0	
11	Authorization & Authority Levels	Yes	0	
12	Competitive Procurements	Yes	1	
13	Non-Competitive Procurements	Yes	0	
14	Leveraged Purchase Agreements	Yes	0	
15	Contract Terms	Yes	0	
16	Other Internal Controls	Yes	0	
Payment Processing				
17	3-Point Match Process	Yes	2	Lack of matching invoice price and terms to underlying contract or purchase order.
18	Payment Approval & Authority Levels	Yes	0	
19	Special Rules - In-Court Service Providers	Yes	1	
20	Special Rules - Court Interpreters	Yes		Audit Committee suspended review pending policy change
21	Other Items of Expense	Yes	0	
22	Jury Expenses	Yes	0	
23	Allowable Costs	Yes	0	
24	Other Internal Controls	Yes	0	
Fine & Fee Distributions				
25	CMS-Calculated Distributions	Yes	1	
26	Manually-Calculated Distributions	Yes	0	
Fund Balance Cap				
27	Calculation of the Cap	Yes	1	
28	Use of "Held on Behalf" Funds	Yes	0	
JBSIS Case Filing Data				
29	Validity of JBSIS Data	Yes	1	
Grants				
30	AB 1058 Grants	Yes	0	
Other Areas				
31	[None]	No	0	

* Audit Services tentatively plans to resume travel and the testing of cash handling procedures around September 2021, subject to public health and safety guidance.

In Audit Services' view, cash handling continues to be a high-risk area given the potential for the loss or theft of public funds. Many of our procedures involve determining whether a court has implemented the required or suggested internal controls described in the *Trial Court Financial Policies and Procedures Manual* (FIN Manual). Courts also did not always follow the FIN Manual's "three-point match" process to ensure each vendor's invoice agreed with the terms/conditions of the contract and the receiving document prior to issuing payment to a vendor, thus the vendor payment process continues to be a focus in the audit plan. Finally, we believe JBSIS reporting continues to be an inherently high-risk process given: (1) the complexity of the rules defining reported data elements; (2) the fact courts must configure their various Case Management Systems (CMS)—at times with 3rd party help—to adhere to changing reporting requirements and/or case type definitions; and (3) several of the Judicial Council's key business decisions are based on JBSIS filings data (i.e. trial court budget allocations and the branch's judicial needs assessment).

Audit Scope and Adjustments for Fiscal Year 2021-22

Additions, deletions, and modifications to the audit plan for FY 21-22 are described below.

- ***Resume testing of cash handling controls:*** Audit Services tentatively plans to resume travel to the courts in September 2021, which would include the testing of the cash handling internal controls cited in the FIN Manual. This has historically been an area with the largest number of audit findings.
- ***Resume testing court interpreter payments:*** The Judicial Council approved the new payment policy in March 2021 and audit staff will include this requirement for audits beginning on or after January 2022.
- ***Add testing of enhanced collections:*** Statute establishes the requirements courts must first satisfy before operating a collections program. Potential areas of risk include the courts improperly keeping revenues obtained from delinquent debtors in excess of the court's actual costs of collecting that debt. Audit Services' reviews of transactions in Phoenix indicate this is an area of risk that should be included in the audit plan.
- ***Reduce scope of revenue distribution testing*** – Audit Services often tests 18 different distributions; however, only 12 distributions normally have audit findings. As a result, Audit Services plans to limit its reviews to historically problematic distributions (such as those pertaining to DUI, speeding, reckless driving, and red-light violations). We plan to suspend testing other distributions such as: proof of corrections, child safety seat

violations; proof of insurance, and various other distributions under the Health & Safety and Fish & Game codes.

- ***Reduce scope of fund balance testing:*** State law increased the statutory cap on trial court fund balances that may be carried over from the prior fiscal year. Audit Services plans to suspend testing of compliance with the statutory cap on fund balance; however, it will continue to review reported encumbrances at fiscal year-end to ensure the FIN Manual’s policies are followed. When applicable, Audit Services will still review court spending on projects where the funds had been held by the council “on behalf” of the trial courts.

Available Staff Resources and Audit Scheduling

Audit Services has two units—an *Internal Review Team* and a *Court Audit Team*—that each focus on distinct areas of work. The *Court Audit Team* currently consists of two senior auditors and three audit staff, who are split into two different sub-teams. The *Court Audit Team’s* focus at each court is based on the risk areas noted in Table 1 above and the related scope areas noted in Table 2. The *Internal Review Team* has one senior auditor based in San Francisco. This team generally focuses on performing periodic internal reviews as directed by the Judicial Council’s executive management team. *The Internal Review Team* also investigates whistleblower complaints and performs non-recurring or targeted reviews of judicial branch programs that may affect multiple courts. Based on the available staff resources shown in Table 3 below, Audit Services estimates that it has 8,556 available hours for audit activities of the appellate and superior courts for fiscal year 2021-22, which does not include the roughly 1,426 hours the *Internal Review Team* has reserved for internal reviews. Staff from the internal review team will work on trial court audits as time permits.

The timeframes shown in Table 3 for Audit Services’ schedule of court-specific audits are high-level estimates and are intended to depict the time between the anticipated start of the audit (i.e. the entrance conference) to the substantial completion of fieldwork and the delivery of any findings to the court’s management for their official comment. Audit Services will provide each court with a reasonable time—up to three weeks—to provide its official response and corrective action plan before finalizing the draft report for the audit committee. The audit schedule includes assumptions about the required number of hours to complete each audit based on the revisions to the audit plan (discussed previously) and other factors such as the number of anticipated locations where cash handling activities take place.

Table 3 – Anticipated Audit Schedule (Fiscal Year 2021-22)

	Fiscal Year 2021-22													Total
	July	August	September	October	November	December	January	February	March	April	May	June		
Monthly Working Days	22	22	22	21	22	23	21	20	23	21	22	22	261	
Available Monthly Hours	176	176	176	168	176	184	168	160	184	168	176	176	2,088	
Judicial Branch Holidays	(8)	-	(8)	(8)	(24)	(16)	(8)	(16)	(8)	-	(8)	-	(104)	
Estimated Personal Leave	(16)	(8)	(16)	(16)	(32)	(40)	(24)	(16)	(8)	(16)	(16)	(8)	(216)	
Available Hours Per Auditor	152	168	152	144	120	128	136	128	168	152	152	168	1,768	
Administrative Time	(3)	(2)	(3)	(2)	(3)	(2)	(2)	(3)	(2)	(3)	(2)	(3)	(30)	
Training	(8)	-	-	(8)	-	(8)	(8)	-	-	(8)	-	-	(40)	
Travel (Two Round Trips / Month)	-	-	(24)	(24)	(40)	(24)	(16)	(24)	(24)	(32)	(32)	(32)	(272)	
Non-Audit Hours	(11)	(2)	(27)	(34)	(43)	(34)	(26)	(27)	(26)	(43)	(34)	(35)	(342)	
Available Audit Hours Per Auditor	141	166	125	110	77	94	110	101	142	109	118	133	1,426	
# of Audit Staff	7	7	7	7	7	7	7	7	7	7	7	7	7	
Total Available Audit Hours	987	1,162	875	770	539	658	770	707	994	763	826	931	9,982	
Court Audit Team #1	423	498	375	330	231	282	330	303	426	327	354	399	4,278	
Court Audit Team #2	423	498	375	330	231	282	330	303	426	327	354	399	4,278	
Internal Review Team	141	166	125	110	77	94	110	101	142	109	118	133	1,426	

	Fiscal Year 2021-22											
	July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services												
Court Audit Team #1	Sutter		Tuolumne				Plumas					
	Stanislaus				Santa Barbara				Mendocino			
Court Audit Team #2	Inyo / Del Norte / Amador		Nevada				Monterey					
	El Dorado		Orange				Marin					
Internal Review Team	Internal Reviews											

State Controller's Office	<i>Audit of Trial Court Revenues, Expenditures & Fund Balance - GC 77206(h) [5 superior courts - Yuba, Colusa, Ventura, Tulare, and TBD]</i>											
	<i>Trial Court Fine & Fee Revenue Distribution Audits - GC 68103 [14 superior courts - Amador, Santa Cruz, San Joaquin, Kern, Monterey, Alpine, Tulare, San Diego, Sonoma, Tehama, Modoc, Lake, Placer, Kings]</i>											

State Auditor's Office	<i>Judicial Council Procurement Audit - PCC 19210(c)</i>											
	<i>Statewide Financial Statement Audit of FY 2020-21 (all State Agencies)</i>											

Note: Scheduled audits by council staff are based on estimated available hours and are subject to change depending on: (1) each court's availability; (2) Audit Services' resources; and (3) changing audit priorities based on risk. The audit committee may also reprioritize audits and modify the audit schedule as it deems necessary. The audit schedule shown above tentatively assumes the resumption of travel beginning September 2021 and is subject to change based on public health and safety guidance.

Schedule of Future Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year’s annual audit plan. Table 4 shows all 6 appellate courts and 58 superior courts, ranked by the time elapsing since its previous audit. Elapsed time will always be a significant consideration for Audit Services when scheduling audits. To minimize the risk of a single court being audited by multiple entities during the same year, audit scheduling is also influenced by—and to the extent possible coordinated with—the work of external audit organizations. For example, three courts (San Joaquin, Sonoma and Yuba) were pushed back to next year’s audit schedule based on planned audits by the State Controller’s Office.

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

Appellate / Superior Court	Date of Last Audit Report	(Current Plan)		(Next Year)	
		FY 2021-22	FY 2022-23	Appellate / Superior Court	Date of Last Audit Report
32. Plumas	January-11	X		15. Kern	August-16
45. Shasta	January-11	IP		31. Placer	October-17
3. Amador	April-11	IP		24. Merced	January-18
9. El Dorado	April-11	X		4. Butte	April-18
39. San Joaquin	April-11		Y	3rd DCA	May-18
49. Sonoma	April-11		Y	48. Solano	June-18
2. Alpine	July-11	IP		6. Colusa	June-18
14. Inyo	July-11	IP		5. Calaveras	June-18
43. Santa Clara	December-11	IP		47. Siskiyou	October-18
55. Tuolumne	February-12	X		56. Ventura	December-18
50. Stanislaus	April-12	X		34. Sacramento	December-18
8. Del Norte	September-12	IP		5th DCA	February-19
42. Santa Barbara	November-12	X		11. Glenn	February-19
27. Monterey	December-12	X		4th DCA	March-19
30. Orange	December-12	X		35. San Benito	June-19
19. Los Angeles	February-13		Y	38. San Francisco	June-19
1. Alameda	March-13		Y	44. Santa Cruz	June-19
23. Mendocino	July-13	X		25. Modoc	October-19
58. Yuba	August-13		Y	53. Trinity	October-19
21. Marin	October-13	X		52. Tehama	February-20
51. Sutter	November-13	X		46. Sierra	February-20
20. Madera	June-14			18. Lassen	February-20
29. Nevada	July-14	X		41. San Mateo	February-20
17. Lake	August-14			37. San Diego	July-20
40. San Luis Obispo	December-14			2nd DCA	July-20
36. San Bernardino	January-15			1st DCA	July-20
57. Yolo	February-15			28. Napa	April-21
54. Tulare	July-15			6th DCA	April-21
16. Kings	October-15			13. Imperial	April-21
12. Humboldt	December-15			33. Riverside	June-21
7. Contra Costa	February-16			26. Mono	June-21
10. Fresno	June-16			22. Mariposa	June-21

Notes:

"IP" = In progress

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

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



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 7/15/2021

Action Item #3 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item #3** – Discuss and approve for public posting the State Controller’s audit of Placer Superior Court.

Supporting Documents:

- ***Attachment C***—Audit report of Placer 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 Placer 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 one minor audit findings as summarized below:

Recording of account adjustments— The audit noted the court received revenue attributable to the prior year in amounts less than what had been accrued at year-end. The resulting adjustment (to account for less revenue) should have been posted to the “Prior Year Revenue Adjustment Account” in the court’s general ledger. Similarly, the audit noted expenditure transactions applicable to the prior year were posted as current year transactions. These prior year expenditures should have been posted to the “Prior Year Expenditure Adjustment” account. The amounts reported in error were “minimal”

per the auditors and the report did not attempt to quantify the error. In its response, the court agreed with the audit finding and reports it has taken steps to revise its procedures.

Staff recommend the committee approve the audit for public posting.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF PLACER

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2017, through June 30, 2018



BETTY T. YEE
California State Controller

March 2021



BETTY T. YEE
California State Controller

March 17, 2021

Jake Chatters, Court Executive Officer
Superior Court of California, County of Placer
P.O. Box 619072
Roseville, CA 95661

Dear Mr. Chatters:

The State Controller's Office audited the Superior Court of California, County of Placer (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 a weakness in the Court's internal controls for recording accrual-related accounting adjustments. This issue is described in the Finding and Recommendation section of our report.

This report is for your information and use. The Court's response to the finding is included in this final report. The Court agreed with our finding and provided a Corrective Action Plan to address the internal control weakness. We appreciate the Court's willingness to implement a corrective action.

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: Julie Kelly, Court Fiscal Manager
Superior Court of California, County of Placer
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 Placer (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 a weakness in the Court's internal control for recording accrual-related accounting adjustments. This issue is described in the Finding and Recommendation section.

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) 2017-18, the Court (County of Placer) generated approximately 81% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 118 staff members to fulfill the operational and administrative activities necessary to serve Placer County's population of approximately 389,047. The Court incurred approximately \$20,844,402 million in expenditures for the period of July 1, 2017, through June 30, 2018. Of this amount, approximately 72% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, Non-Grant Special Revenue Fund, Grant Special Revenue Fund, and a Proprietary Fund. The General Fund, Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund each 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; 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 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; 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 44 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 as follows:

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.
- The sample consisted of 67 transactions selected to test both internal controls and account recording.

- We tested \$18,467,318 of \$21,099,956, or 87.5% of total revenues.

We found no material errors in the recording of transactions. However, we noted an internal control deficiency related to the recording of accrual-related accounting adjustments.

The details of our finding are provided in the Finding and Recommendation section of this report.

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 2018 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 35 of 118 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:
 - Used a sample of 44 expenditure transactions to test both internal controls and the accuracy of the Court's recording of transactions;
 - Selected 13 expenditure transactions that exceeded \$40,000;
 - Sample-tested an additional 23 transactions from the remaining population; and
 - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$1,865,458 of \$28,844,402, or 8.9% of total expenditures.

We found no material errors in the recording of transactions. However, we noted an internal control deficiency related to the recording of accrual-related accounting adjustments.

The details of our finding are provided in the Finding and Recommendation section of this report.

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 Schedule 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, 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 a weakness in the Court's internal control for recording accrual-related accounting adjustments. This issue is described in the Finding and Recommendation section.

**Follow-up on
Prior Audit
Finding**

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 September 2017 We are not including any follow-up to matters presented in JCC's prior report.

**Views of
Responsible
Officials**

We issued a draft audit report on February 22, 2021. Jake Chatters, Court Executive Officer responded by letter dated March 3, 2021 (Attachment), agreeing with the audit results. This final audit report includes the Court's response.

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

March 17, 2021

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

Revenue Accounts	Total Revenues ¹	Percentage	Amounts Tested ¹	Percentage	Error Amounts ⁴
<u>State Financing Sources²</u>					
Trial Court Trust Fund ³	\$ 17,053,002	80.8%	\$ 17,053,002	100%	\$ -
Improvement and Modernization Fund	42,574	0.2%	42,574	100%	-
Court Interpreter	325,327	1.5%	33,212	10.2%	-
MOU Reimbursements ³	1,032,081	4.9%	296,971	28.8%	-
Other Miscellaneous	<u>634,797</u>	3.0%	<u>634,797</u>	100%	-
Subtotal	19,087,781		18,060,556		-
<u>Grants²</u>					
AB 1058 Commissioner/Facilitator	400,408	1.9%	22,552	6%	-
Other Judicial Council Grants	<u>85,602</u>	0.4%	<u>70,717</u>	82.6%	-
Subtotal	486,009		93,269		-
<u>Other Financing Sources²</u>					
Interest Income	105,244	0.5%	334	0.3%	-
Local Fees	337,202	1.6%	18,902	5.6%	-
Non-Fee Revenues	16,608	0.1%	688	4.1%	-
Prior Year Revenue	(10,200)	0.0%	-	0.0%	-
County Program – Restricted	6,469	0.0%	600	9.3%	-
Reimbursement Other ³	1,069,472	5.1%	292,862	27.4%	-
Other Miscellaneous	<u>1,371</u>	0.0%	<u>107</u>	7.8%	-
Subtotal	1,526,166		313,493		-
Total Revenues	<u>\$ 21,099,956</u>	100%	<u>\$ 18,467,318</u>	87.5%	<u>\$ -</u>

¹ Differences due to rounding.

² Tested account internal controls.

³ Material account.

⁴ No errors noted.

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

Expenditure Accounts	Total Expenditures ¹	Percentage	Amounts Tested ¹	Percentage	Error Amounts ⁴
Payroll²					
Salaries – Permanent ³	\$ 8,762,255	42.0%	\$ 173,316	2.0%	\$ -
Temp Help	-	0.0%	-	0.0%	-
Overtime	46,550	0.2%	-	0.0%	-
Staff Benefits ³	6,175,855	29.6%	58,421	0.9%	-
Subtotals	14,984,660		231,737		-
Operating Expenses and Equipment²					
General Expense	507,314	2.4%	2,728	0.5%	-
Printing	27,290	0.1%	7,145	26.2%	-
Telecommunications	191,032	0.9%	780	0.4%	-
Postage	89,185	0.4%	4,861	5.5%	-
Insurance	8,520	0.0%	6,615	77.6%	-
In-State Travel	72,198	0.3%	347	0.5%	-
Out-of-State Travel	2,172	0.0%	221	10.2%	-
Training	41,971	0.2%	12,420	29.6%	-
Security Services	791	0.0%	35	4.5%	-
Facility Operations	125,988	0.6%	1,665	1.3%	-
Utilities	504	0.0%	38	7.5%	-
Contracted Services ³	2,889,148	13.9%	696,676	24.1%	-
Consulting and Professional Services	23,216	0.1%	75	0.3%	-
Information Technology	805,119	3.9%	2,085	0.3%	-
Major Equipment	151,586	0.7%	47,260	31.2%	-
Other Items of Expense	7,852	0.0%	339	4.3%	-
Subtotals	4,943,886		783,291		-
Special Items of Expense²					
Grand Jury	1,748	0.0%	292	16.7%	-
Jury Costs	64,108	0.3%	138	0.2%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other ³	850,000	4.1%	850,000	100.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior-Year Expense Adjustment	-	0.0%	-	0.0%	-
Subtotals	915,856		850,430		-
Total Expenditures	\$ 20,844,402	100%	\$ 1,865,458	8.9%	\$ -

¹ Differences due to rounding.

² Tested account internal controls.

³ Material account.

⁴ No errors noted.

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

	General Fund ¹	Non-Grant Special Revenue Fund ¹	Grant Special Revenue Fund ¹	Proprietary Fund ¹	Total ¹
Beginning Balance	\$ 951,786	\$ 467,322	\$ -	\$ 361,625	\$ 1,780,733
Revenues	19,754,976	160,953	486,009	698,018	21,099,956
Expenditures	(19,307,026)	(172,140)	(485,093)	(880,143)	(20,844,402)
Transfers In	-	14,864	-	-	14,864
Transfers Out	(13,948)	14,864	(917)	-	(0)
Ending Balance	<u>\$ 1,385,788</u>	<u>\$ 485,864</u>	<u>\$ 0</u>	<u>\$ 179,500</u>	<u>\$ 2,051,152</u>
<u>Error Amounts</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

¹ Differences due to rounding.

Finding and Recommendation

**FINDING—
Internal control
deficiency related
to the recording of
account
adjustments**

The Court did not record account adjustments to reclassify certain prior-year transactions that affect balances reported in the current-year revenue and expenditure accounts. The following are conditions in which adjustments were not recorded:

- We noted differences between revenue accrued in the prior year (FY 2016-17) and amounts actually received in the current year (FY 2017-18). Revenues received were less than amounts accrued. Differences can occur because accruals are estimated at year end and should be recorded as an adjustment in General Ledger Account No. 899910 – Prior-Year Revenue Adjustment. The Court indicated that it had not previously entered adjustments for accrual differences after the close of the fiscal year.
- We also noted instances in which expenditure transactions that took place near the close of the prior year were not accrued, but instead were recorded in current-year operating accounts. Recording prior-year transactions in a current year occurs because payment information may not be known in time to accrue the transactions before closing the prior year-end financial ledgers. The Court should record invoice payments for the prior year in General Ledger Account No. 999910 – Prior-Year Expense Adjustment.

Because the transactions that we identified produced only a negligible effect on the specific revenue and expenditure account balances, we did not quantify the errors. Both adjustment accounts indicated above are included in the financial statements of revenues and expenditures, but the financial statements appropriately isolate prior-year transactions to prevent them from being comingled in current-year operating accounts. Therefore, neither the revenue differences nor the invoice payment and expenditure amounts were material to the financial statements as a whole.

However, the volume of transactions that we reviewed was limited by sampling, and other transactions may exist that we did not identify. The Prior-Year Adjustment accounts effectively serve to true-up accounting information for financial and budgetary reporting. Failure to adjust accounts may lead to material financial misstatements.

We conferred with staff from the JCC's Administrative Division regarding trial court accounting procedures for accruals and adjustments. The Administrative Division staff provided an extract of recent guidance from a FY 2019-20 year-end accounting manual communicated to trial courts in an effort to clarify the accounting procedures. The guidance is as follows:

Automated Accrual Reversal Process

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new year by placing Z2 and 07/01/2020 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2020.

Note: If an accrual was not recorded at year end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year [adjustment] accounts are to be used in the subsequent year.

The Court expressed appreciation for the additional guidance provided by the JCC in 2020. The Court noted that such guidance had not been provided in prior years, nor had it been expressed in prior audits performed by the JCC.

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 5.02, 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 General Ledger Account No. 999910 – Prior-Year Expense Adjustment as the account used for recording “expenses related to prior-year activity.”

The Chart of Accounts also describes General Ledger Account No. 899910 – Prior-Year Revenue Adjustment as the account used to record revenue that was earned in the prior year, but not accrued. Guidance from the JCC also provides that adjustment accounts be used to record adjustments of accrual-related accounting differences.

Recommendation

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, according to the JCC’s accounting guidance.

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



Superior Court of the State of California
In and For The County of Placer
Roseville, California

JAKE CHATTERS
COURT EXECUTIVE OFFICER
AND CLERK OF THE SUPERIOR COURT/
JURY COMMISSIONER
(916) 408-6186 FAX (916) 408-6188

March 3, 2021

Joel James, Chief
Financial Audits Bureau
State Controller's Office
Transmitted via email to: jjames@sco.ca.gov

Re: Response to Superior Court of California, County of Placer – Validity of Recorded Revenues,
Expenditures, and Fund Balances Audit Report

Bureau Chief James,

Thank you for the opportunity to respond to the State Controller's Office's Audit Report on the Superior Court of Placer County's Validity of Recorded Revenues, Expenditures, and Fund Balances.

The court is pleased, and agrees, with the auditors' finding that the court "complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances." We are committed to accurate and transparent financial records. The court further agrees with the single finding regarding the need for an adjustment to the general ledger accounts used to document variance in prior year revenues and expenditures. This change in practice has been made and is reflected in documentation of any prior year adjustments related to FY 2019/2020 that are reflected in FY 2020/2021 financials. This practice will continue into future years.

We would like to thank the State Controller's Office and the auditors assigned to this effort for their diligence and professionalism, especially given the disruption caused by the COVID-19 pandemic.

Sincerely,

Jake Chatters,
Court Executive Officer

cc: Hon. Alan V. Pineschi, Presiding Judge, Superior Court of Placer County
Julie Kelly, Court Fiscal Services Director, Superior Court of Placer County
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: 7/15/2021

Action Item #4 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item #4** – Discuss and approve for public posting the State Controller’s audit of Kern Superior Court.

Supporting Documents:

- ***Attachment D***—Audit report of Kern Superior Court’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2018-19)

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 Kern 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 issues as summarized below:

Recording of Accounting Adjustments – The court did not accrue at fiscal year-end certain court interpreter revenues associated with distribution #14, and instead recorded these items as revenue in the subsequent year when received. However, since these amounts pertained to the prior year (and were not previously accrued), the revenues should have been recorded in GL account 899910 – Prior Year Revenue Adjustment account. A similar scenario occurred with the court’s receipt of certain AB 1058 grant

revenue, which also should have been posted to GL 899910. The court agreed with the finding.

Misclassified Expenditure Transaction – For a security surveillance project, the court recorded a series of invoices under GL 922699 (Minor Equipment under \$5,000) instead of GL 945207 (Security Surveillance – Major) since the total project cost was nearly \$299,000 in total. GL accounts are assigned when the purchase order is prepared and approved and the court indicated the misclassification was an oversight. The court agreed with the finding.

Exceeding Payment Authority – For 7 of 47 transactions reviewed, the court’s CEO approved payment of vendor invoices that exceeded her signing authority as designated by the court’s presiding judge. The CEO is authorized to approve payments to vendors in amounts up to \$50,000. For clarity, the underlying purchase orders themselves were properly authorized by the presiding judge and there was no misuse of court funds. The court agreed with the finding and reports it has adjusted its procedures accordingly.

Staff recommends public posting of the audit report.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF KERN

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2018, through June 30, 2019



BETTY T. YEE
California State Controller

March 2021



BETTY T. YEE
California State Controller

March 25, 2021

Tamarah Harber-Pickens, Court Executive Officer
Superior Court of California, County of Kern
1415 Truxtun Avenue, Room 212
Bakersfield, CA 93301

Dear Ms. Harber-Pickens:

The State Controller's Office audited the Superior Court of California, County of Kern (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. However, our audit identified instances of internal control deficiencies in which the Court selected improper accounts for both recording year-end revenue distributions from the prior-year and, separately, for recording current-year operating expenditures. We also noted an internal control deficiency over the Court's authority to approve invoice payments. The deficiencies are described in the Findings and Recommendations section of this report.

This report is for your information and use. The Court's responses to the findings are included in this final report. The Court agreed with our findings and provided a corrective action plan to address the fiscal control weaknesses. 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

cc: Travis Andreas, Deputy Court Executive Officer
Superior Court of California, County of Kern
Christin Alburger, Deputy Court Executive Officer
Superior Court of California, County of Kern
Kevin Fawke, Fiscal Officer
Superior Court of California, County of Kern
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 Kern (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. However, our audit identified instances of internal control deficiencies in which the Court selected improper accounts for both recording year-end revenue distributions from the prior-year and, separately, for recording current-year operating expenditures. We also noted an internal control deficiency over the Court's authority to approve invoice payments. The deficiencies are described in the Findings and Recommendations section.

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 Kern) generated approximately 66% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 527 staff members to fulfill the operational and administrative activities necessary to serve Kern County's population of approximately 907,500. The Court incurred \$83,713,339 million in expenditures for the period of July 1, 2018, through June 30, 2019. Of this amount, approximately 69% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, Proprietary Fund, and a Fiduciary Fund. All funds that had revenue accounts and expenditure accounts with reported balances at year-end in excess of 4% of total revenues and expenditures, respectively, 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 California Rules of Court 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 tested 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, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and the Proprietary 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 76% of the revenue balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$83,596,716 for FY 2018-19. Procedures included both analytical comparisons and tests 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 internal controls over processes and account recording.
- We tested \$64,716,802 of \$83,596,716, or 77% of total revenues.

We found certain prior-year revenues that were misclassified in accounts reported in the Court's financial statements. However, the Court's total reported revenues were not misstated.

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, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and Proprietary 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 527 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:
 - Judgmentally selected 20 expenditure transactions that exceeded \$100,000;
 - Sample-tested an additional 27 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 \$6,105,540 of \$83,713,339, or 7.3% of total expenditures.

We found an internal control deficiency relating to the assignment of accounts used to classify and record expenditure transactions. We also found a deficiency regarding the approval of invoice payments for some high-dollar expenditure transactions.

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, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and Proprietary Fund because these funds had significant balances in revenue and expenditure accounts;
- We tested revenue and expenditure transactions in the General Fund, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and Proprietary 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; 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, changes in fund balances, and error amounts noted.

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, our audit identified instances of internal control deficiencies in which the Court selected improper accounts for both recording year-end revenue distributions from the prior-year and, separately, for recording current-year operating expenditures. We also noted an internal control deficiency over the Court’s authority to approve invoice payments. The deficiencies are described in the Findings and Recommendations section.

**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 August 2016. We are not including any follow-up to matters presented in JCC’s prior report.

**Views of
Responsible
Officials**

We issued a draft audit report on March 5, 2021. Travis Andreas, Deputy Court Executive Officer responded by letter dated March 10, 2021 (Attachment), agreeing with the audit results. This final audit report includes the Court’s response.

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

March 25, 2021

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

Revenue Accounts ¹	Total Revenues	Percentage	Amounts Tested	Percentage	Error Amounts ²
<u>State Financing Sources³</u>					
Trial Court Trust Fund ⁴	\$ 55,039,582	65.8%	\$ 55,039,582	100.0%	\$ -
Improvement and Modernization Fund	113,238	0.1%	89,646	79.2%	-
Court Interpreter ⁴	4,019,817	4.8%	4,019,817	100.0%	145,305
MOU Requirements ⁴	4,719,965	5.6%	904,388	19.2%	-
Other Miscellaneous ⁴	3,544,268	4.2%	3,544,268	100.0%	-
Subtotal	67,436,869		63,597,700		145,305
<u>Grants³</u>					
AB 1058 Commissioner/Facilitator	1,557,001	1.9%	51,665	3.3%	10,844
Other Judicial Council Grants	14,911	0.0%	7,456	50.0%	-
Subtotal	1,571,912		59,120		10,844
<u>Other Financing Sources³</u>					
Interest Income	372,898	0.4%	395	0.1%	-
Local Fees	1,055,391	1.3%	62,602	5.9%	-
Non-Fee Revenues	64,043	0.1%	18,305	28.6%	-
Enhanced Collections ⁴	3,732,177	4.5%	149,037	4.0%	-
Prior Year Revenue	10,000	0.0%	10,000	100.0%	(156,149)
County Program - Restricted	198,919	0.2%	3,050	1.5%	-
Reimbursement Other	682,687	0.8%	89,747	13.1%	-
Other Miscellaneous ⁴	8,471,819	10.1%	726,845	8.6%	-
Subtotal	14,587,934		1,059,981		(156,149)
Total Revenues	\$ 83,596,716	100.0%	\$ 64,716,802	77.4%	\$ -

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, 2018, through June 30, 2019

Expenditure Accounts ¹	Total Expenditures	Percentage	Amounts Tested	Percentage	Error Amounts ²
Payroll³					
Salaries – Permanent ⁴	\$ 31,985,054	38.2%	\$ 110,052	0.3%	\$ -
Temp Help	214,495	0.3%	-	0.0%	-
Overtime	233,331	0.3%	-	0.0%	-
Staff Benefits ⁴	25,421,740	30.4%	65,894	0.3%	-
Subtotal	57,854,620		175,946		-
Operating Expenses and Equipment³					
General Expense ³	3,992,770	4.8%	1,338,981	33.5%	298,945
Printing	138,938	0.2%	5,158	3.7%	-
Telecommunications	603,149	0.7%	703	0.1%	-
Postage	540,847	0.6%	1,175	0.2%	-
Insurance	1,062,815	1.3%	801	0.1%	-
In-State Travel	96,123	0.1%	435	0.5%	-
Out of State Travel	5,102	0.0%	1,370	26.8%	-
Training	63,167	0.1%	575	0.9%	-
Security Services	-	0.0%	-	0.0%	-
Facility Operations	2,979,773	3.6%	2,978	0.1%	-
Utilities	69,948	0.1%	3,441	4.9%	-
Contracted Services ⁴	5,689,158	6.8%	614,048	10.8%	-
Consulting and Professional Services	743,687	0.9%	2,692	0.4%	-
Information Technology	1,623,692	1.9%	31,861	2.0%	-
Major Equipment	255,868	0.3%	596	0.2%	(298,945)
Other Items of Expense	48,930	0.1%	84	0.2%	-
Subtotal	17,913,967		2,004,897		-
Special Items of Expense³					
Grand Jury	643	0.0%	345	53.6%	-
Jury Costs	619,672	0.7%	21,659	3.5%	-
Judgements, Settlements, Claims ⁴	7,324,437	8.7%	3,976,565	54.3%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense	-	0.0%	-	0.0%	-
Subtotal	7,944,752		3,998,568		-
Total Expenditures	\$ 83,713,339	100.0%	\$ 6,179,411	7.4%	\$ -

¹ Differences due to rounding.

² Revenues 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, 2018, through June 30, 2019

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Proprietary Fund	Total
Beginning Balance ¹	\$ 1,465,017	\$ 3,153,468	\$ -	\$ 500,000	\$ 5,118,484
Revenues	68,232,421	4,771,816	1,571,912	9,020,566	83,596,716
Expenditures	(68,417,830)	(4,495,927)	(1,915,588)	(8,883,993)	(83,713,339)
Transfers In	-	78,706	343,676	-	422,382
Transfers Out	(422,382)	-	-	-	(422,382)
Ending Balance	<u>\$ 857,226</u>	<u>\$ 3,508,063</u>	<u>\$ 0</u>	<u>\$ 636,573</u>	<u>\$ 5,001,861</u>
<u>Error Amounts</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding.

Findings and Recommendations

FINDING 1— Internal control deficiency related to the recording of account adjustments

The Court did not utilize adjustment accounts to reclassify and properly record certain prior-year revenues that were received in the current-year. Both revenue exceptions identified below reflect estimated revenues provided to the Court by Trial Court Trust Fund, Distribution No. 14 of the previous year.

Adjustments were not recorded in the following instances:

- The Court did not accrue two year-end Court Interpreter (General Ledger [GL] Account No. 834010) revenue transactions in the amount of \$131,529 and \$13,776 in the prior year (FY 2017-18). When the Court received the cash in FY 2018-19, it was recorded as a current-year revenue in the Court Interpreter account, instead of the Prior-Year Revenue Adjustment account (GL Account No. 899910).
- The Court did not accrue a transaction in the prior year (FY 2017-18) for the Assembly Bill 1058 Grants account (GL Account No. 838010) totaling \$10,844. When the Court received the cash in FY 2018-19, it was recorded as a current year revenue in the AB 1058 Grants account, instead of the Prior-Year Revenue Adjustment account (GL Account No. 899910).

Differences can occur because Distribution No. 14 revenues may not be known at year-end and should be recorded as an adjustment in GL Account No. 899910 – Prior-Year Revenue Adjustment when received. We also noted other differences between amounts accrued in the prior year and amounts received. These differences were trivial and are not described in this report; however, differences between accrual and actual revenues should be also accounted for in the adjustment account. The Court indicated that it was not aware of using the Prior-Year Revenue Adjustment account .

The Prior-Year Adjustment account effectively serves to true-up accounting information for financial and budgetary reporting and isolates prior-year transactions to prevent them from being comingled with current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

We conferred with staff from the JCC’s Administrative Division regarding trial court accounting procedures for accruals and adjustments. Administrative Division staff provided an extract of recent guidance from a FY 2019-20 year-end accounting manual communicated to trial courts in an effort to clarify the accounting procedures. The guidance is as follows:

Automated Accrual Reversal Process

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new year by placing Z2 and 07/01/2020 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2020.

Note: If an accrual was not recorded at year end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year [adjustment] accounts are to be used in the subsequent year.

The Court expressed appreciation for the additional guidance provided by the JCC in 2020. The Court noted that such guidance had not been provided in prior years, nor had it been expressed in prior audits performed by the JCC.

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 5.02, 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.”

The Trail Court Chart of Accounts describes GL Account No. 899910 – Prior-Year Revenue Adjustment as the account used to record revenue that was earned in the prior year but not accrued. Guidance from the JCC also provides that adjustment accounts be used to record adjustments of accrual-related accounting differences.

Recommendation

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, according to the JCC’s accounting guidance. The Court should record prior year transactions (revenues or expenditures) that are not accrued to the adjustment accounts. Differences that occur in the current-year for amounts actually received (for accrued revenue receivables) or paid (for accrued expenditure payables) from amounts accrued in the prior-year should also be entered in the adjustment accounts.

Court's Response

The Court concurs with the audit finding and the narrative that outlines that the Judicial Council of California did not provide guidance on the use of prior year accounts until June 2020. The Court has provided training to the accounting team and has ensured compliance with the guidance since it was released.

FINDING 2— Misclassified accounting entry

During our review of the Court's expenditures, we noted the following two internal control deficiencies:

- **Significant Misclassified Accounting Entry**

The Court incorrectly classified and entered invoice payments for the progress billings on a project to GL Account No. 922699, Minor Equipment-under \$5,000. The total project cost, billed over four installments, was \$298,945. We initially selected one invoice to review in our sample, but upon discovering the error selected the other three invoices in connection with the project. The Court indicated that the transaction should have been recorded in GL Account No. 945207, Security Surveillance, because one of the items purchased was greater than \$5,000. The cost detail provided by the contractor shows that project costs consisted of materials, labor, and project management/engineering fees. Although the materials list included one item with a value of \$11,845, there were approximately 150 items listed. The total value for all materials was \$126,375, out of the \$298,945 project cost. The project should have been considered as a single acquisition to account for its costs.

Each of the two accounts mentioned in this report are classified into separate financial reporting and budget categories of the financial statements, where GL Account No. 922699, Minor Equipment-under \$5,000, is classified in the "General Expense" category; and GL Account No. 945207, is classified in the "Major Equipment" category.

Accounts are assigned (coded) when a purchase requisition, quote, or purchase order is prepared, reviewed, and approved. Properly coded purchase documents facilitate correct accounting and financial reporting. The Court indicated the misclassification was an oversight. While the misclassification did affect the presentation of account totals, it did not misstate the Court's overall reported total expenditures and fund balances.

- **Exceeded Payment Approval Limit**

In seven out of 47 invoices reviewed, the CEO approved payments in excess of the CEO's authorized \$50,000 limit. According to the Court's Authorization Matrix, the CEO is limited to approving invoice payments up to \$50,000; those above \$50,000 should be approved by the presiding judge. The invoices were each valued at more than \$100,000. Approval for higher cost purchases are similarly limited; we reviewed the underlying purchase records and found appropriate

approvals from the presiding judge to make the requested purchases. We did not find any misuse of funds.

This payment-approval issue was previously disclosed in the JCC Audit Services Report of the Superior Court of Kern County, August 2016. We noted that in response to the reported finding, the Court revised its authorizations and exceptions to address the purchase and payment approval processes, but retained the \$50,000 limit on CEO invoice approvals.

Regarding the classification of accounts, the *Trial Court Financial Policies and Procedure Manual*, Eight Edition, Policy No. Fin 8.01, section 6.3.5 states, in part:

1. It is important that all expenditures are recorded in the appropriate accounts. To ensure that transactions are recorded correctly, account codes shall be entered on the purchase requisitions that initiate transactions and be included in the resulting procurement documents. Invoice transactions that are not supported by procurement documents (travel expense claims, check requests, etc.) must have the account code noted on the document requesting payment.
2. If there is any question regarding the assignment of an account code, the accounts payable department or accounts payable provider will contact the person who initiated the purchase requisition to confirm that the correct account is being charged.

Regarding the authority to process and approve payments, the *Trial Court Financial Policies and Procedure Manual*, Eight Edition, Policy No. Fin 8.01, section 6.2.3, states, in part:

1. The trial court shall establish and maintain an authorization matrix that lists employees who are permitted to commit court resources and approve invoices for payment.
2. The authorization matrix shall list the dollar limits and scope of authority of each authorized employee. For example, only certain court officials will be allowed to approve transactions such as the acquisition of fixed assets, hiring of consultants, etc. The authorization matrix should indicate such conditions.

Recommendation

We recommend the court continue enforcing its expenditure control policies by:

- Providing training to staff charged with buying or preparing requisitions to ensure that appropriate account codes are assigned, and encouraging all persons involved with approval or processing to review coding prior to processing invoices for payments; and
- Ensuring that designated court officials act within the scope of their authority when approving invoices for payment and that the Court review its business needs and consider making appropriate revisions to its authority levels in consultation with the JCC. If the dollar amount or nature of a purchase exceeds an individual's authority, the next

level of authority should be consulted and appropriate approval secured before releasing the invoice for payment.

Court's Response

The Court concurs with the audit finding. The Court has adjusted internal controls to aid in mitigating future occurrences.

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



COLETTE M. HUMPHREY
PRESIDING JUDGE

JUDITH K. DULCICH
ASST. PRESIDING JUDGE

TAMARAH HARBER-PICKENS
COURT EXECUTIVE OFFICER &
CLERK OF THE COURT

Metropolitan Division
1415 Truxtun Ave., Rm. 212
Bakersfield, CA 93301
(661) 868-4934

Metropolitan Division –
Justice Center
1215 Truxtun Avenue
Bakersfield, CA 93301
(661) 868-2450

Metropolitan Division -
Juvenile Justice Center
2100 College Avenue
Bakersfield, CA 93305
(661) 868-5393

Metropolitan Division - Traffic
Department
3131 Arrow Street
Bakersfield, CA 93308
(661) 335-7100

Delano/McFarland Branch
1122 Jefferson Street
Delano, CA 93215
(661) 720-5800

Shafter Branch
325 Central Valley Highway
Shafter, CA 93263
(661) 746-7500

Arvin/Lamont Branch
12022 Main Street
Lamont, CA 93241
(661) 868-5800

Taft/Maricopa Branch
311 North Lincoln Street
Taft, CA 93268
(661) 763-8531

Mojave Branch
1773 Highway 58
Mojave, CA 93501
(661) 824-7100

Ridgecrest Branch
132 East Coso Avenue
Ridgecrest, CA 93555
(760) 384-5900

SUPERIOR COURT OF CALIFORNIA COUNTY OF KERN

March 10, 2021

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

Dear Mr. James,

This correspondence serves as the response to the two audit findings noted in the Audit Report on the Validity of Recorded Revenues, Expenditures, and Fund Balances for Superior Court of Kern County during the period of July 1, 2018, through June 30, 2019.

The Kern County Superior Court would like to take the opportunity to thank your staff for their professionalism and willingness to work with the Court during the course of this audit, which was profoundly affected by the pandemic.

Please see the Court's responses herewith for each of the findings identified in the audit report.

Should you have further questions or require additional information, please contact me at (661) 868-2610.

Sincerely,

Travis Andreas
Deputy Court Executive Officer – Finance

CC: Hon. Colette Humphrey, Presiding Judge
Tamarah Harber-Pickens, CEO

Finding 1 – *The Court did not utilize adjustment accounts to reclassify and properly record certain prior-year revenues that were received in the current-year. Both revenue exceptions identified below reflect estimated revenues provided to the Court by Trial Court Trust Fund, Distribution No. 14 of the previous year.*

Court Response

The Court concurs with the audit finding and the narrative that outlines that the Judicial Council of California did not provide guidance on the use of prior year accounts until June 2020. The Court has provided training to the accounting team and has ensured compliance with the guidance since it was released.

Finding 2 – *Internal control deficiencies.*

- *Significant Misclassified Accounting Entry*
- *Exceeded Payment Approval Limit*

Court Response

The Court concurs with the audit finding. The Court has adjusted internal controls to aid in mitigating future occurrences.

**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: 7/15/2021

Action Item #5 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item #5** – Discuss and approve for public posting the State Controller’s audit of Merced Superior Court.

Supporting Documents:

- ***Attachment E***—Audit report of Merced Superior Court’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2018-19)

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 Merced 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:

Posting of Revenue Transactions – The court accrued over \$145,000 in court interpreter revenue at the end of fiscal year 2017-18 but received roughly \$22,000 (resulting in a difference of \$123,000 in overstated / over-accrued revenue). The court should have recorded a prior year revenue adjustment for this difference but did not do so resulting in a misstatement of revenues. The court reported that the Judicial Council did not clarify for the court how the revenue adjustment was to be recorded. Council staff have since

clarified for the courts the appropriate use of the “prior year revenue adjustment” account (GL 899910).

Expenditure Transactions – For 3 of 25 payment transactions reviewed, the transactions pertained to the prior year (2017-18) but were recorded as current year (2018-19) expenses. The court had not previously accrued the 3 transactions from the prior year and thus should have recorded them as “prior year expenditure adjustments” in GL account 999910. The court agreed with the error and plans to follow the council’s recent guidance on posting prior year expenditure adjustments.

Staff recommend the committee approve the audit for public posting.

**SUPERIOR COURT OF CALIFORNIA,
COUNTY OF MERCED**

Audit Report

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

July 1, 2018, through June 30, 2019



BETTY T. YEE
California State Controller

March 2021



BETTY T. YEE
California State Controller

March 30, 2021

Amanda Toste, Court Executive Officer
Superior Court of California, County of Merced
627 West 21st Street
Merced, CA 95340

Dear Ms. Toste:

The State Controller's Office audited the Superior Court of California, County of Merced (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. However, we noted weaknesses in the Court's internal controls for recording accrual-related accounting adjustments. These issues are described in the Findings and Recommendations section of our report.

This report is for your information and use. The Court's response to the findings are incorporated into this final report. The Court agreed with our findings and provided a Corrective Action Plan to 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

cc: Keri Brasil, Chief Financial Officer
Superior Court of California, County of Merced
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 Merced (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. However, in the course of testing, we noted weaknesses in the Court's internal controls for recording accrual-related accounting adjustments. 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) 2018-19, the Court (County of Merced) generated approximately 76% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 135 staff members to fulfill the operational and administrative activities necessary to serve Merced County's population of approximately 280,772. The Court incurred approximately \$17.8 million in expenditures for the period of July 1, 2018, through June 30, 2019. Of this amount, approximately 69% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, Non-Grant Special Revenue Fund, Grant Special Revenue Fund, Capital Projects Fund, and a Fiduciary Fund. The General Fund, Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund had revenue and expenditure accounts 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, 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 California Rules of Court 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 40 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 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.

- Our testing included both tests of controls and analytical procedures. We selected all material accounts that exceeded 4% of total revenues and determined that the Trial Court Trust Fund, Court Interpreter, MOU Reimbursements, and Other Miscellaneous accounts were material. We tested at least 98% of these accounts through combined sampling and analytical procedures.
- We tested \$16,402,605 of \$17,996,901, or 91% of total revenues.

We found errors in the recording of transactions resulting from an internal control deficiency over recording accrual-related accounting adjustments. The total amount of error is \$122,725.

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, 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). Material accounts included the payroll Salaries – Permanent and Staff Benefits accounts, and the non-payroll Contracted Services account.
- To test payroll, we selected two pay periods occurring in March and April of 2019 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 30 of 135 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 a sample of 65 expenditure transactions to test both internal controls and the accuracy of recording transactions;
 - Selected 25 expenditure transactions that exceeded \$36,667; and

- Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$706,663 of \$17,841,137, or 4% of total expenditures.

We found errors in the recording of transactions resulting from an internal control deficiency over recording accrual-related accounting adjustments. The total amount of the error is \$7,559.

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, Non-Grant Special 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 Schedule 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. However, in the course of testing, we noted weaknesses in the Court's internal controls for recording accrual-related accounting adjustments. These issues are described in the Findings and Recommendations section of our 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 January 2018. We are not including any follow-up to matters presented in JCC's prior report.

**Views of
Responsible
Officials**

We issued a draft audit report on March 12, 2021. Amanda Toste, Court Executive Officer responded by letter dated March 18, 2021 (Attachment), agreeing with the audit 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 Merced; 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

March 30, 2021

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

Revenue Accounts ¹	Revenues Reported		Revenues Tested		Error Amount ²
	Amount	Percentage	Amount	Percentage	
State Financing Sources³					
Trial Court Trust Fund ⁴	\$ 13,402,403	74.5%	\$ 13,402,403	100.0%	\$ 752
Improvement and Modernization Fund	38,617	0.2%	38,617	100.0%	-
Judges' Compensation	-	0.0%	-	0.0%	-
Court Interpreter ⁴	965,222	5.4%	965,222	100.0%	(123,477)
Civil Coordination Reimbursement	-	0.0%	-	0.0%	-
MOU Reimbursements ⁴	1,107,131	6.2%	1,087,056	98.2%	-
Other Miscellaneous ⁴	774,827	4.3%	774,827	100.0%	-
Subtotal	16,288,201		16,268,126		(122,725)
Grants³					
AB 1058 Commissioner/Facilitator	699,646	3.9%	73,810	10.5%	-
Other Judicial Council Grants	31,767	0.2%	10,180	32.0%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	731,413		83,990		-
Other Financing Sources³					
Interest Income	105,542	0.6%	93	0.1%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	-	0.0%	-	0.0%	-
Local Fees	341,611	1.9%	960	0.3%	-
Non-Fee Revenues	30,102	0.2%	11,021	36.6%	-
Enhanced Collections	397,910	2.2%	32,519	8.2%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	135	0.0%	135	100.0%	122,725
County Program - Restricted	61,715	0.3%	1,235	2.0%	-
Reimbursement Other	40,222	0.2%	4,476	11.1%	-
Sale of Fixed Assets	-	0.0%	-	0.0%	-
Other Miscellaneous	50	0.0%	50	100.0%	-
Subtotal	977,287		50,489		122,725
Total Revenues	\$ 17,996,901	100%	\$ 16,402,605	91%	\$ -

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, 2018, through June 30, 2019

<u>Expenditure Accounts¹</u>	<u>Expenditures Reported</u>		<u>Expenditures Tested</u>		Error
	Amount	Percentage	Amount	Percentage	Amount ²
<u>Payroll³</u>					
Salaries – Permanent ⁴	\$ 6,797,147	38.1%	\$ 108,862	1.6%	\$ -
Temp Help	-	0.0%	-	0.0%	-
Overtime	30,635	0.2%	-	0.0%	-
Staff Benefits ⁴	<u>5,497,252</u>	30.8%	<u>61,421</u>	1.1%	<u>-</u>
Subtotals	12,325,034		170,283		-
<u>Operating Expenses and Equipment³</u>					
General Expense	621,547	3.5%	43,576	7.0%	-
Printing	22,824	0.1%	894	3.9%	-
Telecommunications	165,121	0.9%	19,147	11.6%	-
Postage	114,104	0.6%	6,557	5.7%	-
Insurance	7,405	0.0%	595	8.0%	-
In-State Travel	27,918	0.2%	1,095	3.9%	-
Out of State Travel	2,256	0.0%	1,193	52.9%	-
Training	7,722	0.0%	1,151	14.9%	-
Security Services	3,515	0.0%	1,835	52.2%	-
Facility Operations	473,894	2.7%	14,573	3.1%	-
Utilities	2,876	0.0%	5	0.2%	-
Contracted Services ⁴	2,525,475	14.2%	64,839	2.6%	7,559
Consulting and Professional Services	68,040	0.4%	5,955	8.8%	-
Information Technology	675,535	3.8%	13,788	2.0%	-
Major Equipment	387,240	2.2%	72,972	18.8%	-
Other Items of Expense	<u>4,060</u>	0.0%	<u>582</u>	14.3%	<u>-</u>
Subtotals	5,109,532		248,756		7,559

Schedule 2 (continued)

Expenditure Accounts ¹	Expenditures Reported		Expenditures Tested		Error
	Amount	Percentage	Amount	Percentage	Amount ²
<u>Special Items of Expense³</u>					
Grand Jury	6,617	0.0%	119	1.8%	-
Jury Costs	121,957	0.7%	5,070	4.2%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	277,997	1.6%	277,977	100.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	4,458	0.0%	-
Prior Year Expense	-	0.0%	-	0.0%	(7,559)
Subtotals	406,571		287,624		(7,559)
Total Expenditures	<u>\$ 17,841,137</u>	100%	<u>\$ 706,663</u>	4%	<u>\$ -</u>

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, 2018, through June 30, 2019**

<u>Balance¹</u>	<u>General Fund</u>	<u>Non-Grant Special Revenue Fund</u>	<u>Grant Special Revenue Fund</u>	<u>Capital Project</u>	<u>Total</u>
Beginning Balance	\$ 447,644	\$ 420,338	\$ -	\$ 2,194,028	\$ 3,062,010
Revenues	16,320,818	590,005	731,413	354,664	17,996,901
Expenditures	(15,699,744)	(640,618)	(1,222,778)	(277,997)	(17,841,137)
Transfers In	-	-	491,364	-	491,364
Transfers Out	(491,364)	-	-	-	(491,364)
Ending Balance	<u>\$ 577,353</u>	<u>\$ 369,726</u>	<u>\$ -</u>	<u>\$ 2,270,695</u>	<u>\$ 3,217,774</u>
<u>Errors Noted²</u>					
Revenues over/(under) stated; see Finding 1	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures over/(under) stated; see Finding 2	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding

² Classification errors in Findings 1 and 2 did not affect fund balances

Findings and Recommendations

FINDING 1— Revenue accounting and reporting errors

The Court did not record account adjustments to reclassify certain prior-year transactions that affect balances reported in the current-year revenue operating accounts of the Court's Statement of Revenues, Expenditures, and Fund Balances. As part of our revenue testing for the FY 2018-19 audit year, we compared the JCC's Trial Court Trust Fund distribution schedules (monthly allocations) with the Court's recorded monthly revenue ledger entries. We noted differences between the Trial Court Trust Fund-Court Interpreter and Trial Court Trust Fund-Court Appointed Counsel accounts. The cumulative revenue reporting error totals \$122,725.

Following are instances in which adjustments were not recorded:

- The Court accrued revenue of \$145,675 in the Trial Court Trust Fund-Court Interpreter, General Ledger (GL) Account No. 834010, for the prior fiscal year (FY 2017-18). However, the Court received only \$22,198 in program distributions during the current year, which resulted in a \$123,477 shortfall from the Court's expected program revenue and a deficit in the account's current year balance.

At the beginning of each new fiscal year, the accounting system automatically reverses the previous year's accrual entries and creates a deficit in the account's beginning balance of the current fiscal year. Normally, account deficits are offset by subsequent deposits; however, in the absence of deposits, the deficit remains in the account and understates the balance at year-end, unless it is reclassified through an accounting adjustment.

As the FY 2017-18 accrued revenue was not distributed to the Court to offset the reversal, the Trial Court Trust Fund-Court Interpreter revenue account balance was understated by \$123,477 for FY 2018-19. The prior year balance for FY 2017-18 is conversely overstated, without enforceable claims or collections. Court staff members informed us that they inquired with the JCC on multiple occasions about distributions and were told they would not receive additional funding for the prior FY 2017-18, but they should continue accruing needed funding for all expenses incurred. Following the instructions, the Court accrued another \$110,355 toward funding its program costs for the current year, FY 2018-19. Court staff informed us that no funds were subsequently distributed in the following year, FY 2019-20. As a result, the FY 2018-19 revenue account was cyclically inflated and overstated for the same amount of \$110,355. We did not include this error amount in the financial schedule of our report because the adjustment should have been made in FY 2019-20, the year following our audited year.

- The Court received a \$752 revenue distribution for the Trial Court Trust Fund-Court Appointed Counsel (GL Account No. 832012), attributable to the prior year of FY 2017-18, but not accrued at year-

end. The Court noted that it had accrued only the invoice expense and accounts payable for the costs incurred (and for which this distribution was made), but did not accrue the revenue funding and distribution receivable to offset the expense. If not accrued, unadjusted revenues result in overstating the balances of current-year operating revenue accounts and understating the balances in the prior year. The JCC allocated this revenue in its Trial Court Trust Fund Distribution No. 14, of August 2018. We did not identify the basis on which the JCC allocated the funds.

Revenues distributed to the Court for a prior year, but not accrued, should be reclassified as a prior-year revenue adjustment. For this transaction, the Court should have reclassified the revenue out of the Trial Court Trust Fund-Court Appointed Counsel, GL Account No. 832012 and into GL Account No. 899910, Prior Year Revenue Adjustments.

The Trial Court Chart of Accounts describes General Ledger Account No. 899910 – Prior-Year Revenue Adjustment as the account used to record revenue that was earned in the prior year but not accrued. Guidance from the JCC also provides that adjustment accounts be used to record adjustments of accrual-related accounting differences. Importantly, the adjustment account is presented in the Court's financial statement, but appropriately isolates prior year transactions to prevent them from being commingled in current year operating accounts. Failure to adjust accounts may lead to material financial account misstatements.

We conferred with staff from the JCC's Administrative Division regarding trial court accounting procedures for accruals and adjustments. Administrative Division staff provided an extract of recent guidance from a FY 2019-20 year-end accounting manual communicated to trial courts in an effort to clarify the accounting procedures. The Court noted that such guidance had not been provided in prior years, nor had it been expressed in prior audits performed by the JCC. The new guidance follows the year of audit and is as follows:

Automated Accrual Reversal Process

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new year by placing Z2 and 07/01/2020 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2020.

Note: If an accrual was not recorded at year end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year [adjustment] accounts are to be used in the subsequent year.

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 5.02, 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.

Recommendation

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, according to the JCC's accounting guidance. We also recommend that the Court continue seeking assistance from the JCC Administrative Division to improve the interagency system of tracking its interpreter program costs and funding requirements.

Court's Response

The Court agrees there was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on the Judicial Council of California (JCC) accounting support staff as the Court's Finance Team consists of three people. The Court consulted with JCC during the year-end process and followed the exact recommendations and instructions provided at that time. Judicial Council of California communicated to the Trial Courts in the FY2019-20 Year-End Accounting Manual with additional guidance and clear instructions. With this communication, the Court has followed the amended guidance and instructions.

FINDING 2— Expenditure accounting and reporting errors

Expenditure accounts were not properly adjusted for prior-year activities. As part of our expenditure testing of the FY 2018-19 current year, we reviewed 25 transactions for the Court's contracted services and found three expenditures from the FY 2017-18 prior year that were not accrued at year-end, June 30, 2018; but rather, processed and recorded in the current year's operating accounts instead. As a result, the FY 2018-19 contracted services expense account balance is overstated by \$7,559. Details of the transactions are as follows:

- Merced County Behavioral Health and Recovery Services, services for \$6,984; invoice dated June 30, 2018, and recorded into Psychiatric Evaluations, GL Account No. 939002, August 3, 2018; and
- West America Bank, fees of \$575, statement dated June 29, 2018, and recorded into Banking and Investment Services, GL Account No. 939701, July 25, 2018.

The Court indicated that the expenses were overlooked in recording year-end accruals. In processing the previous year's expenses, the Court should have recorded the transactions directly in its Prior Year Expense Adjustment account, GL Account No. 999910. The adjustment account is used to record expenses (or expenditures) that were related to prior-year activities, but not accrued in the prior year. It should also be used to adjust accounts for differences between accrued expenses and subsequent payments made in the following fiscal-year, if different.

The Trial Court Chart of Accounts describes General Ledger Account No. 999910 – Prior-Year Expense Adjustment as the account used to record expenses related to prior year activities. Guidance from the JCC also provides that adjustment accounts be used to record adjustments of accrual-related accounting differences. The JCC guidance is described in Finding 1. As similarly noted, the adjustment account is presented in the Court's financial statement, but appropriately isolates prior year transactions to prevent them from being commingled in current year operating accounts. Failure to adjust accounts may lead to material financial account misstatements.

Finding 1 also includes references to both CRC Rule 10.804(a) and the *Trial Court Financial Policies and Procedures Manual*, Eighth Edition, Policy No. Fin 5.02, section 3.0, which applies equally here. Additionally, Policy No. Fin 5.01, section 6.8.2 (Year-End Expenditure and Related Liability Accruals) states:

During year-end closing, the court must:

1. Accrue expenditures for all open encumbrances for goods and services that have been delivered or rendered, but not paid as of June 30;
2. Review all contracts, including contracts covering more than one fiscal year. Accrue expenditures for services rendered or goods received in the current fiscal year only;
3. Not accrue expenditures for contracts or POs that have a valid, open balance, and the goods or services have not been received by June 30;
4. Accrue expenditures for all direct invoices, not supported through an encumbrance, for which goods or services have been received or rendered, but not paid as of June 30;
5. Prepare and maintain a detailed listing of accruals with actual invoice numbers and amounts noted; and
6. Reverse all expenditure accruals in the first month of the new fiscal year.

Failure to accrue or adjust accounts may lead to material financial misstatements.

Recommendation

We recommend that the Court strengthen its internal controls over the year-end closing process to ensure that expenses are fully recorded and properly accrued in the period in which they occurred, or to ensure that

prior-year expenses that are not accrued in the prior year are properly recorded in the Prior Year Expense Adjustment account, as required.

Court's Response

The Court agrees there was a technical recording error and will continue to follow the FY2019-20 Year-End Accounting Manual.

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



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF MERCED**

www.mercedcourt.org

627 West 21st Street Merced, CA 95340

Phone (209) 725-4100

AMANDA TOSTE
COURT EXECUTIVE OFFICER
and
JURY COMMISSIONER

March 18, 2021

Mr. Joel James, Chief Financial Audit Bureau
Office of State Controller Betty T. Lee
Division of Audits
P.O. Box 942850
Sacramento, CA 94250

Re: Response to the Audit of the Superior Court of California, County of Merced

Dear Mr. James,

The Court is in receipt of the State Controller's Office (SCO) audit report titled "Superior Court of California, County of Merced, Validity of Recorded Revenues, Expenditures, and Fund Balances" for the period July 1, 2018 through June 30, 2019. Below are the Court's responses to the findings and recommendations contained in the audit report.

FINDING 1 – Revenue Accounting and Reporting Errors

The Court did not record account adjustments to reclassify certain prior-year transactions that affect balances reported in the current-year revenue operating accounts of the Court's Statement of Revenues, Expenditures, and Fund Balances. As part of our revenue testing for the FY2018-19 audit year, we compared the JCC's Trial Court Trust Fund (TCTF) distribution schedules (monthly allocations) with the Court's recorded monthly revenue ledger entries. We noted differences between the TCTF-Court Interpreter and TCTF-Court Appointed Counsel accounts. The cumulative revenue reporting error total \$122,725.

- The Court accrued revenue of \$145,675 in the TCTF-Court Interpreter, GL Account No. 834010 for the prior fiscal year (FY2017-18). However, the court received only \$22,198 in program distributions during the current year which resulted in a \$123,477 short fall from the Court's expected program revenue and deficit in the account's current year balance. At the beginning of each new fiscal year, the accounting system automatically reverses the previous year's accrual entries and creates a deficit in the account's beginning balance of the current fiscal year. Normally, account deficits are offset by subsequent deposits; however, in the absence of deposits, the deficit remains in the account and understates the balance at year-end, unless it is reclassified through an accounting adjustment.

As the FY 2017-18 accrued revenue was not distributed to the Court to offset the reversal, the TCTF-Court Interpreter revenue account balance was understated by \$123,477 for FY 2018-19. The prior year balance for FY 2017-18 is conversely overstated, without enforceable claims or collections. Court staff members informed us that they inquired with the JCC on multiple occasions about distributions and were told they would not receive additional funding for the prior FY 2017-18, but they should continue accruing needed funding for all expenses incurred. Following the instructions, the Court accrued another \$110,355 toward funding its program costs for the current year, FY 2018-19. Court staff informed us that no funds were subsequently distributed in the following year, FY 2019-20. As a result, the FY 2018-19 revenue account was cyclically inflated and overstated for the same amount of \$110,355. We did not include this error amount in the financial schedule of our report because the adjustment should have been made in FY 2019-20, the year following our audited year.

The Court received a \$752 revenue distribution for the TCTF-Court Appointed Counsel (GL Account No. 832012), attributable to the prior year of FY 2017-18, but not accrued at year-end. The Court noted that it had accrued only the invoice expense and accounts payable for the costs incurred (and for which this distribution was made) but did not accrue the revenue funding and distribution receivable to offset the expense. If not accrued, unadjusted revenues result in overstating the balances of current-year operating revenue accounts and understating the balances in the prior year. The JCC allocated this revenue in its TCTF Distribution No. 14, of August 2018. We did not identify the basis on which the JCC allocated the funds.

Revenues distributed to the Court for a prior year, but not accrued, should be reclassified as a prior-year revenue adjustment. For this transaction, the Court should have reclassified the revenue out of the TCTF-Court Appointed Counsel, GL Account No. 832012 and into GL Account No. 899910, Prior Year Revenue Adjustments.

Court Response: *The Court agrees there was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on the Judicial Council of California (JCC) accounting support staff as the Court's Finance Team consists of three people. The Court consulted with JCC during the year-end process and followed exact the recommendations and instructions provided at that time. Judicial Council of California communicated to the Trial Courts in the FY2019-20 Year-End Accounting Manual with additional guidance and clear instructions. With this communication, the Court has followed the amended guidance and instructions.*

FINDING 2 – Expenditure Accounting and Reporting Errors

- Expenditure accounts were not properly adjusted for prior-year activities. As part of our expenditure testing of the FY 2018-19 current year, we reviewed 25 transactions for the Court's contracted services and found three expenditures from the FY 2017-18 prior year that were not accrued at year-end, June 30, 2018; but rather, processed and recorded in the current year's operating accounts instead. As a result, the FY 2018-19 contracted

services expense account balance is overstated by \$7,559. Details of the transactions are as follows:

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- o West America Bank, fees of \$575, statement dated June 29, 2018, and recorded into Banking and Investment Services, GL Account No. 939701, July 25, 2018.

The Court indicated that the expenses were overlooked in recording year-end accruals. In processing the previous year's expenses, the Court should have recorded the transactions directly in its Prior Year Expense Adjustment account, GL Account No. 999910. The adjustment account is used to record expenses (or expenditures) that were related to prior-year activities, but not accrued in the prior year. It should also be used to adjust accounts for differences between accrued expenses and subsequent payments made in the following fiscal year, if different.

The Trial Court Chart of Accounts describes General Ledger Account No. 999910 – Prior-Year Expense Adjustment as the account used to record expenses related to prior year activities. Guidance from the JCC also provides that adjustment accounts be used to record adjustments of accrual-related accounting differences. The JCC guidance is described in Finding 1, above. As similarly noted, the adjustment account is presented in the Court's financial statement, but appropriately isolates prior year transactions to prevent them from being commingled in current year operating accounts. Failure to adjust accounts may lead to material financial account misstatements.

Court Response: *The Court agrees there was a technical recording error and will continue to follow the FY2019-20 Year-End Accounting Manual.*

The Court also wants to extend our gratitude and thanks to the professional team members for the audit as it is our goal to ensure the court is in compliant with the laws, rules, and regulations for the remittance and distributions of the state, county, and court revenues.



Amanda Toste
Court Executive Officer, Merced Superior Court

cc. Donald J. Proietti, Presiding Judge
Keri Brasil, Chief Financial 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: 7/15/2021

Action Item #6 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item #6** – Discuss and approve for public posting the State Controller’s audit of Stanislaus Superior Court.

Supporting Documents:

- ***Attachment F***—Audit report of Stanislaus Superior Court’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2018-19)

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 Stanislaus 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 did not identify any reportable issues at Stanislaus Superior Court. Staff recommends the audit committee approve the audit for public posting.

**SUPERIOR COURT OF CALIFORNIA,
COUNTY OF STANISLAUS**

Audit Report

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

July 1, 2018, through June 30, 2019



BETTY T. YEE
California State Controller

March 2021



BETTY T. YEE
California State Controller

March 16, 2021

Hugh Swift, Court Executive Officer
Superior Court of California, County of Stanislaus
880 11th Street
Modesto, CA 95354

Dear Mr. Swift:

The State Controller's Office audited the Superior Court of California, County of Stanislaus (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.

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

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: Ronna Uliana, Assistant Court Executive Officer
Superior Court of California, County of Stanislaus
Reena Amin, Fiscal Services Manager
Superior Court of California, County of Stanislaus
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 Stanislaus (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 Stanislaus) generated approximately 81% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 243 staff members to fulfill the operational and administrative activities necessary to serve Stanislaus County's population of 554,603. The Court incurred approximately \$30,660,563 million in expenditures for the period of July 1, 2018, through June 30, 2019. Of this amount, approximately 77% 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, 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 California Rules of Court 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 40 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, 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. Individual accounts with balances exceeding 4% of total revenues are considered material and significant.

- We tested 100% of the revenue balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$31,358,163 for FY 2018-19. The sample consisted of 40 transactions selected to test both internal controls and account recording.
- We tested \$28,495,643 of \$31,358,163, or 91% 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, 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. 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 246 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;
 - Sample-tested an additional 23 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 \$3,524,536 of \$30,660,563, or 11.5% 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, 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; 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 the 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 April 2012. 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 November 19, 2020. Hugh Swift, Court Executive Officer; Ronna Uliana, Assistant Court Executive Officer; and Reena Amin, Fiscal Services Manager, agreed with the audit results. Mr. Swift 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 Superior Court of California, County of Stanislaus; 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

March 16, 2021

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

Revenue Accounts ¹	Population		Tested		Error Amount
	Totals	Percentage	Amounts	Percentage	
State Financing Sources					
Trial Court Trust Fund ^{2,3}	\$ 25,404,787	81.01%	\$ 25,404,787	100%	\$ -
Improvement and Modernization Fund ²	69,333	0.22%	10,641	15.35%	-
Court Interpreter ^{2,3}	1,552,365	4.95%	1,552,365	100%	-
MOU Requirements ²	494,973	1.58%	44,576	9.01%	-
Other Miscellaneous ^{2,3}	1,305,229	4.16%	1,305,229	100%	-
Sub-total	28,826,686		28,317,598		
Grants					
AB 1058 Commissioner/Facilitator ²	1,160,247	3.70%	97,274	8.38%	-
Other Judicial Council Grants ²	139,610	0.45%	20,300	14.54%	-
Sub-total	1,299,858		117,573		
Other Financing Sources					
Interest Income ²	149,729	0.48%	305	0.20%	-
Local Fees ²	220,075	0.70%	2,809	1.28%	-
Enhanced Collections ²	307,122	0.98%	9,286	3.02%	-
Escheatment ²	4,582	0.01%	1,224	26.71%	-
Prior Year Revenue ²	(37,935)	-0.12%	37,591	99.09%	-
County Program - Restricted ²	163,769	0.52%	7,340	4.48%	-
Reimbursement Other ²	418,398	1.33%	1,383	0.33%	-
Other Miscellaneous ²	5,878	0.02%	535	9.10%	-
Sub-total	1,231,619		60,472		
Total Revenues	\$ 31,358,163	100%	\$ 28,495,643	90.87%	\$ -

¹ Differences due to rounding.

² Tested accounting internal controls.

³ Material account.

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

Expenditure Accounts ¹	Population		Tested		Error
	Totals	Percentage	Amount	Percentage	Amount
<u>Personnel Services²</u>					
Salaries – Permanent ³	\$ 14,138,792	46.11%	\$ 1,093,953	7.74%	\$ -
Temp Help	-	0%	-	0%	-
Overtime	74,399	0.24%	3,194	4.29%	-
Staff Benefits ³	9,264,089	30.22%	714,809	7.72%	-
Sub-total	23,477,281		1,811,956		-
<u>Operating Expenses and Equipment²</u>					
General Expense ³	809,346	2.64%	2,929	0.36%	-
Printing	68,684	0.22%	609	0.89%	-
Telecommunications	274,276	0.89%	5,917	2.16%	-
Postage	101,809	0.33%	4,475	4.40%	-
Insurance	8,287	0.03%	4,974	60.02%	-
In-State Travel	32,424	0.11%	622	1.92%	-
Out of State Travel	5,505	0.02%	551	10.01%	-
Training	21,344	0.07%	420	1.97%	-
Security Services	43,292	0.14%	1,700	3.93%	-
Facility Operations	811,574	2.65%	14,922	1.84%	-
Utilities	3,070	0.01%	149	4.86%	-
Contracted Services ³	2,365,242	7.71%	39,493	1.67%	-
Consulting and Professional Services	184,258	0.60%	1,469	0.80%	-
Information Technology ³	1,561,753	5.09%	1,196,723	76.63%	-
Major Equipment	498,819	1.63%	52,160	10.46%	-
Other Items of Expense	6,312	0.02%	221	3.51%	-
Sub-total	6,795,992		1,327,335		-
<u>Special Items of Expense</u>					
Grand Jury ²	1,601	0.01%	15	0.91%	-
Jury Costs ²	109,319	0.36%	15	0.01%	-
Judgements, Settlements, Claims	-	0%	-	0%	-
Debt Service	-	0%	-	0%	-
Other ²	382,443	1.25%	382,443	100%	-
Capital Costs	-	0%	-	0%	-
Internal Cost Recovery	-	0%	-	0%	-
Prior Year Expense Adjustment ²	(106,073)	0.35%	2,782	2.62%	-
Sub-total	387,290		385,254		-
Total Expenditures	\$ 30,660,563	100%	\$ 3,524,546	11.50%	\$ -

¹ Differences due to rounding.

² Tested accounting internal controls.

³ Material account.

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

<u>Balance¹</u>	<u>General Fund</u>	<u>Non-Grant Special Revenue Fund</u>	<u>Grant Special Revenue Fund</u>	<u>Total</u>
Beginning Balance	\$ 670,769	\$ 108,956	\$ -	\$ 779,725
Revenues	29,406,784	651,522	1,299,858	31,358,163
Expenditures	(28,790,752)	(479,925)	(1,389,886)	(30,660,563)
Transfers In	-	-	90,029	90,029
Transfers Out	(90,029)	-	-	(90,029)
Ending Balance	<u>\$ 1,196,772</u>	<u>\$ 280,553</u>	<u>\$ -</u>	<u>\$ 1,477,325</u>
<u>Error Amount</u>				
Revenues	-	-	-	-
Expenditures	-	-	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding.

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