



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

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

AUDITS AND FINANCIAL ACCOUNTABILITY COMMITTEE

OPEN MEETING WITH CLOSED SESSION AGENDA

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

THIS MEETING IS BEING CONDUCTED BY ELECTRONIC MEANS

OPEN PORTION OF THIS MEETING IS BEING RECORDED

Date: February 1, 2022
Time: 12:15 – 1:15 PM
Public Videocast: <https://jcc.granicus.com/player/event/1613>

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

Approval of Minutes

Approve minutes of the July 15, 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 January 31, 2022 will be provided to advisory body members prior to the start of the meeting.

III. INFORMATION ONLY ITEMS (NO ACTION REQUIRED)

Info 1

Report from Audit Services

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

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

Info 2

General Discussion by Members of the Committee

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

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

IV. DISCUSSION AND POSSIBLE ACTION ITEMS

Item 1

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

Review and approve for public posting the State Controller's recent audit of Yuba Superior Court's revenues, expenditures, and fund balance for fiscal year 2019-20. Government Code, Section 77206(h) requires the State Controller to periodically audit the trial courts and how they account for the funds under their control.

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

Item 2

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

Review and approve for public posting the State Controller's recent audit of the Judicial Council's revenues, expenditures, and fund balance for fiscal year 2019-20. Government Code, Section 77206(i) requires the State Controller to periodically audit the trial courts and how they account for the funds under their control.

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

Item 3

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

Review and approve for public posting the State Auditor's recent audit of the Judicial Council's procurement processes. Section 19210 of the Public Contract Code requires

the State Auditor to biennially evaluate the council's compliance with the Judicial Branch Contract Law.

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

V. ADJOURNMENT

Adjourn to closed session.

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

Item 4

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

Non-final audit reports or proposed responses to such reports

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

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

Item 5

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

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of Shasta 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 6

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

Non-final audit reports or proposed responses to such reports

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

Presenter(s)/Facilitator(s): Joe Meyer, 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 Amador 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 Inyo 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 10

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

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

VII. ADJOURNMENT

Adjourn the meeting



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ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING WITH CLOSED SESSION

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

Advisory Body Members Present: Hon. David Rosenberg, Mr. Neal Taniguchi, Hon. Arthur A. Wick, Ms. Kate Bieker, Ms. Michelle Martinez.

Advisory Body Members Absent: Hon. Peter Siggins, Hon. Mary Ann O'Malley, Mr. Kevin Lane, Mr. Phil Jelichich (non-voting advisory member).

Others Present: Mr. Oliver Cheng (Attorney, Legal Services Office of the Judicial Council), John Prestianni (Attorney, Legal Services Office of the Judicial Council), Jimmy Nguyen (Attorney, Legal Services Office of the Judicial Council), Ms. Dawn Tomita (Audit Supervisor, Audit Services Office), Ms. Michelle O'Connor (Senior Auditor, Audit Services Office), Mr. Joe Meyer (Senior Auditor, Audit Services Office), Ms. Cyndi Busse (CEO, Mariposa Superior Court), Ms. Desiré Leard (Court Executive Assistant, Mariposa Superior Court), Mr. Lester Perpall (CEO, Mono Superior Court), Ms. Marita Ford, (Chief Financial Officer, Riverside Superior Court), Mr. Samuel Hamrick (CEO, Riverside Superior Court)

OPEN MEETING

Call to Order and Roll Call

The chair welcomed committee members and called the meeting to order at 12:15 p.m. and took roll call.

Approval of Minutes

Mr. Taniguchi moved to approve the minutes of the March 10, 2021 meeting. Judge Wick seconded the motion. There was no further discussion of the minutes. Motion to approve passed by unanimous voice vote of the committee members present.

No public comments were received for this meeting.

DISCUSSION AND ACTION ITEMS

Info Item 1

Report from Audit Services

Mrs. Tomita provided information on audit progress and staffing. Audit Services is currently working on six court audits: Alpine, Amador, Del Norte, Inyo, Santa Clara and Shasta. 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. They completed four audits, and these audit reports will be presented today: Placer, Kern, Merced and Stanislaus. SCO has also selected five additional trial courts to audit, and they started work on two audits: Yuba and Colusa Superior Courts. Regarding its audit of the Judicial Council's revenues, expenditures and fund balance, the SCO held an entrance conference with council staff and the report is expected in August. Finally, the California State Auditor's Office will likely begin its audit of the Judicial Council's procurement practices in summer or early fall, with the audit report expected around December 2021.

Info 2

General Discussion by Audit Committee Members

No items discussed.

Action Item 1

Revisions to the Judicial Branch Contracting Manual (Action Required)

Oliver Cheng from Judicial Council Legal Services Office provided an overview of proposed changes to the Judicial Branch Contracting Manual (JBCM). Under Rule of Court 10.63, Audit Committee reviews proposed revisions to JBCM. If this committee finds the proposed revisions acceptable, they will be provided to the Executive and Planning Committee. Then these changes will be placed on consent agenda for Judicial Council's meeting in the end of September. The proposed revisions are for chapters 3 and 12 of the JBCM. Chapter 3 changes are regarding disabled veteran enterprise preference. Chapter 12 changes are intended to amend due to AB 3364, which amended public contract code 19209.

Action: Judge Wick moved to approve the proposed changes to JBCM (seconded by Ms. Bieker). The motion passed by unanimous voice vote of the committee members present.

Action Item 2

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

Mrs. Tomita provided an overview of the proposed audit plan. Auditors are planning to resume travel in September of 2021 and continue audit testing of cash handling controls. Auditors are planning to resume audits of court interpreter payments on or after January 2022 (Judicial Council approved new interpreter's payment policy in March of 2021). Auditors will also add testing of enhanced collections. At the same time, auditors will reduce the scope of revenue distribution testing since there are not as many findings compared to when audit work in this area began. Audit staff also plan to curtail reviews of fund balance; however, auditors will still review a court's reported encumbrances to evaluate compliance with the FIN Manual. Auditors will also continue reviewing court spending on projects where funds have been held on behalf of trial courts.

Action: Mr. Taniguchi moved to approve posting of the annual audit plan on Judicial Council's website (seconded by Ms. Martinez). The motion passed by unanimous voice vote of the committee members present.

Action Item 3

External Audit Report – State Controller's Office's Audit of Placer Superior Court (Action Required)

State Controller's Office found that Placer Superior Court complied with the governing statutes for revenues, expenditures, and fund balances. One minor finding was that the court did not record adjustments to correct prior year accruals (which if uncorrected) have the effect of misstating current year results. The Court agreed with audit findings and has taken steps to revise its procedures.

Action: Ms. Bieker 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 4

External Audit Report – State Controller's Office's Audit of Kern Superior Court (Action Required)

State Controller's Office found that Kern Superior Court complied with the governing statutes for revenues, expenditures, and fund balances. The audit did identify three issues. The Court did not accrue certain revenues from the prior year and instead classified these items as current year revenues. The second issue was the Court recorded their security surveillance project under incorrect general ledger account. The third issue was the Court Executive Officer approved payment that exceeded her signing authority (the payments should have been authorized by the Presiding Judge). The CEO authorized to approve payments to vendors in amounts up to \$50,000, but the invoices approved were more than \$100,000. The underlying purchase orders were properly signed by the Presiding Judge, and there was no misuse of court funds. The Court agreed with audit findings and has taken steps to adjust its procedures accordingly.

Mr. Taniguchi suggested that since court interpreter's revenue comes from state fund, it needs to be coordinated between court staff and JCC staff who account for restricted fund. If court staff incorrectly budgeted for it and incorrectly accrued it, JCC staff needs to point this out. Judge Wick suggested to send an advisory to all courts.

Judge Rosenberg asked Audit Services staff to consider creating an advisory on this issue. Mr. Taniguchi said he will be happy to work on this with Ms. Tomita.

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

Action Item 5

External Audit Report – State Controller's Office's Audit of Merced Superior Court (Action Required)

State Controller's Office found that Merced Superior Court complied with the governing statutes for revenues, expenditures, and fund balances. The audit did identify two findings. One finding was that court did not record account adjustments to reclassify certain prior year transactions that affect the balances recorded in the current year revenue and expenditure accounts. They noted differences between trial court trust fund, court interpreter and trial court trust fund court appointed counsel accounts. The cumulative revenue reporting errors total \$122,725. The second issue they noted was expenditure accounts were not properly adjusted for prior year activities. They found three expenditures for FY17-18 prior year that were not accrued at the year June 30, 2018. It was recorded in current year operating account instead. As a result, FY18-19 contracted services expense account balances overstated by \$7,599.

Action: Ms. Martinez moved to approve posting of this audit report on Judicial Council's website (seconded by Ms. Bieker). The motion passed by unanimous voice vote of the committee members present.

Action Item 6

External Audit Report – State Controller’s Office’s Audit of Stanislaus Superior Court (Action Required)

State Controller’s Office concluded that Stanislaus Superior Court complied with the governing statutes for revenues, expenditures, and fund balances. SCO did not identify any reportable issues at this court.

Action: Judge Wick 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 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 Riverside Superior Court, per Rule of Court 10.63(c)(1).

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

Item 8

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

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

Item 9

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

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

Adjourned closed session at 1:15pm.



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

Meeting Date: 02/01/2022

Informational Item #1 – (No Action Required)

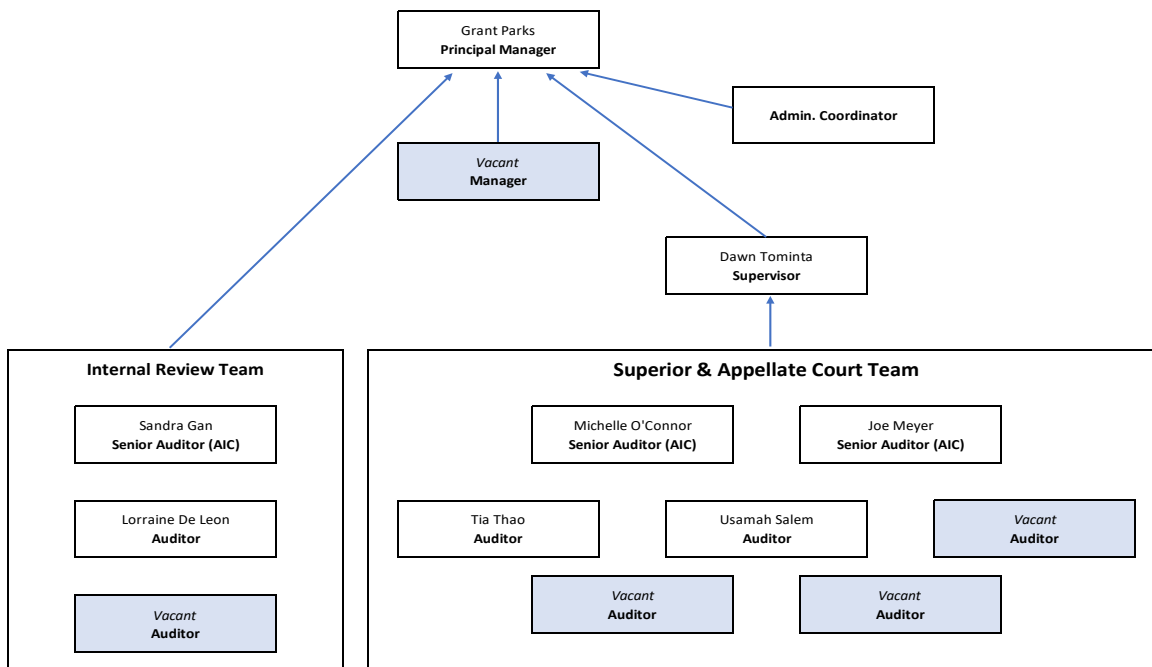
Report from Audit Services

Status Update – Judicial Council’s Audit Services

Workload & Staffing

Audit Services has three senior auditors and three staff auditors, all of whom are assigned to trial court audit work. We are in the process of hiring another auditor position to fill a vacancy and plan to return to having seven full-time audit staff before the end of the fiscal year. This is consistent with the staffing level of 7 FTE in the FY 21-22 audit plan.

Judicial Council Audit Services - Organization Chart (2/1/2022)



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

- Nevada
- Orange

- Stanislaus
- Santa Barbara

Onsite audit work to review cash handling controls have resumed with Sutter and Nevada. Audit Services is giving courts the option to opt out of onsite audit work if local health considerations pertaining to Covid are a concern for the court's management.

Status of External Audits

State Controller's Office (SCO)

Audit Program of the Trial Courts

Government Code, section 77206(h) requires the SCO to audit each court's revenues, expenditures and fund balance on a recurring schedule. The Legislature appropriates \$540,000 each year to fund roughly five audits. You will review one audit today (Yuba) and there are another six audits in progress:

- Colusa
- Ventura
- Tulare
- Madera
- Humboldt
- San Bernardino

One of the SCO's recurring audit findings of the trial courts focused on the accounting for year-end accruals and the necessary adjustments when the amounts accrued were inaccurate. Working with the SCO and the council's accounting staff, Audit Services issued an audit advisory in July 2021 to clarify the issues. That advisory is attached for your reference (Attachment A).

Audit of the Judicial Council

Government Code, section 77206(i) requires the SCO to audit the Judicial Council's revenues, expenditures, and fund balances for all funds under its control on a biennial basis. The SCO's audit of the council is included in today's public agenda.

State Auditor's Office (CSA)

This biennial audit is required per Public Contract Code, Section 19210(c) and focuses on compliance with the council's compliance with the Judicial Branch Contract Law. The Legislature appropriates \$325,000 for this recurring audit. The audit was issued publicly on January 13th and is included in today's materials for discussion.



JUDICIAL COUNCIL OF CALIFORNIA

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AUDIT ADVISORY

Date July 30, 2021	Action Requested Consider Recommendations
To Presiding Judges of the Superior Courts Executive Officers of the Superior Courts	Deadline N/A
From Grant Parks Principal Manager, Audit Services	Contact Grant Parks Audit Services 916-263-1321 phone Grant.Parks@jud.ca.gov
Subject Audit Advisory #2021-1, Use of Prior Year Adjustment Accounts	

The Judicial Council's Audit Services periodically communicates audit guidance and best practices via memorandum to the superior courts for their consideration. In doing so, Audit Services and the Advisory Committee on Audits and Financial Accountability (Audit Committee) seek to:

1. Highlight common areas of risk or best practices;
2. Explain the Judicial Council's criteria on the issues; and
3. Provide courts the opportunity to review local practices, prior to an audit, to improve or strengthen their processes and/or internal controls.

The sections that follow provide further background; a description of the issue(s) covered in this audit advisory; and offers recommendations for each court's executive management team.

Background

Issue Area: Adjustments to Prior-Year Revenues and Expenditures

Sub-Area: General Ledger Accounts #899910 and #999910

Applicable Criteria: As referenced below

The State Controller's Office (SCO) has issued recurring audit findings over the last twelve months highlighting instances where various courts have reported prior-year revenues and expenditures as current-year activity. This can occur when courts do not accrue late distributions—such as #13 and #14—and/or do not adjust these year-end accruals if there are material differences with the amounts actually received or paid. The primary cause for these findings is the limited awareness over the proper use of general ledger accounts #899910 and #999910. This advisory was created so that court officials can more consistently and appropriately segregate current-year and prior-year activity within Phoenix.

Revenue Accruals & Adjustments

The Trial Court Financial Policies and Procedures Manual (FIN manual) policy 5.01 provides guidance relevant to the court's reporting of revenues and expenditures. Section 6.3.1 requires courts to recognize revenue during the fiscal year when it becomes both measurable and available to finance expenditures. Since each trial court derives most of its revenues from state funding, revenues can be accurately measured and expected to be available within a reasonable amount of time. The FIN manual requires courts to use a 60-day period as the standard for determining revenue availability. At fiscal year-end, revenue that has not been received—but will be within 60 days—must be reasonably estimated and accrued in period 13. For example, expected revenues from distribution #14 (often issued by the State Controller in July or August of the subsequent year) must be accrued at year-end.

Differences between the amount of revenue accrued and the actual revenue received should be recorded in GL #899910 - Prior Year Revenue Adjustment Account. For example, if a court did not accrue \$100,000 in revenue at FY 2020-21 year-end for court interpreters (expected from distribution #14), the court would post the following adjustment in FY 2021-22:

8/3/2021 (Fund 110001)	Debit	Credit
GL# 1XXXXX - Cash	\$ 100,000.00	
GL# 899910 - PY Revenue Adjustment		\$ 100,000.00
(Note: To record prior year revenue not previously accrued)		

This entry prevents the \$100,000 from being comingled with the current year's revenue (i.e. FY 2021-22) since the underlying \$100K is associated with distribution #14 from FY 2020-21.

Alternatively, if the court had accrued revenue at the FY 2020-21 year-end but the amounts received were much less—such as accruing \$100K but only later receiving \$30K—the court would need to adjust for the \$70K difference in FY 2021-22. This adjustment ensures current year fund balance is properly stated while avoiding a need for the court to restate its prior year's financial activity. In order to adjust for the \$70K, the court would make the following entry:

8/3/2021 (Fund 110001)	Debit	Credit
GL 899910 - PY Revenue Adjustment	\$ 70,000.00	
GL 8XXXXX - TCTF - Court Interpreter Revenue		\$ 70,000.00
(Note: to adjust for over-stated PY accrual for interpreters - Dist #14)		

The adjustment shown above is necessary due to the standard reversal of prior-year accruals. Specifically, the court's original year-end accrual of \$100K (via transaction A-9) is reversed at the start of the next fiscal year (2021-22), creating an abnormal \$100K balance in the current year's revenue GL account. Since only \$30K was received, a portion of the reversed accrual remains and will continue to understate current year revenues by \$70K unless it is adjusted (as shown in the above journal entry and the t-accounts below).

<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">GL XXXXXX (A/R)</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">A-9 \$ 100,000.00</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black; text-align: right;">\$ 100,000.00 A-9 Reverse</td> </tr> </tbody> </table>	GL XXXXXX (A/R)		A-9 \$ 100,000.00			\$ 100,000.00 A-9 Reverse	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">GL XXXXXX (Cash)</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">Dist #14 \$ 30,000.00</td> <td style="width: 50%;"></td> </tr> <tr> <td style="border-top: 1px solid black;"></td> <td style="border-top: 1px solid black;"></td> </tr> </tbody> </table>	GL XXXXXX (Cash)		Dist #14 \$ 30,000.00							
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	\$ 70,000.00 Adjust																
GL 899910 (PY Rev Adj.)																	
Adjust \$ 70,000.00																	

Expenditure Accruals and Adjustments

Similar to the treatment of revenues, the court must also accrue expenditures at year-end and make adjustments using GL account #999910 if there are material (significant) differences between the amounts accrued and what was actually paid.

FIN 5.01, Section 6.4 addresses expenditure recognition and requires the court to recognize expenditures in the fiscal year during which goods are received or services are rendered. Section 6.8.2 provides guidance on expenditure accruals and requires these accruals be reversed in the first month of the new fiscal year (similar to the previous discussion of revenues). However, if a court did not accrue \$100K in expenditures at FY 2020-21 year-end—such as for unpaid services rendered by court interpreters as of June 30th—the court would use GL #999910 - Prior Year Expense Adjustment during FY 2021-22 as shown below:

8/3/2021 (Fund 110001)	Debit	Credit
GL# 999910 - PY Expense Adjustment	\$ 100,000.00	
GL# XXXXXX -Cash		\$ 100,000.00
(Note: To record prior year expenditures not previously recorded & accrued)		

The above journal entry keeps the prior-year's expenditure separate from current year activity while still allowing it to properly impact overall fund balance. Alternatively, if the court had accrued \$100K of expenditures at year-end but later paid only \$30K, the over-accrued expenditures of \$70K would also require adjustment using GL account #999910 as shown below.

8/3/2021 (Fund 110001)	Debit	Credit
GL#9XXXXX - Expense - Court Interpreters	\$ 70,000.00	
GL# 999910 - PY Expense Adjustment		\$ 70,000.00
(Note: To adjust for over-accrual from PY for interpreter expense)		

As with revenues, the court's original expenditure accrual of \$100K at the end of FY 2020-21 is reversed in July 2021, creating an abnormal balance in the current year's expenditure account. This credit balance is normally offset by payments that eliminate the reversed accrual. However, when an accrual is over-stated, a portion of the credit balance (i.e. the reversed accrual) remains and has the effect of understating current year expenditures that will be posted later in the year. As with the previous revenue discussion, the following t-accounts illustrate the year-end A-8 expenditure accrual of \$100K, its reversal on July 1st, and the application of the PY expense adjustment reflecting the \$70K over-accrual.

GL 3XXXXX - A/P		\$100,000.00 A8	GL XXXXXX - Cash		\$30,000.00 June '21 Pmt
A8 Reverse	\$100,000.00				
GL 9XXXXX - Expense		\$100,000.00 A8; P13 - FY20-21	GL 999910 (PY Exp. Adj.)		
June '21 Pmt	\$ 30,000.00	\$100,000.00 A8 reverse			
Adjust	\$ 70,000.00				\$70,000.00 Adjust

Issue

Recurring SCO Audit Findings

Over the last twelve months, the State Controller's Office (SCO) has reported similar audit findings focusing on the improper reporting of prior-year revenues/expenditures as current-year activity. This is often the result of courts not using the prior-year revenue and expenditure adjustment accounts (or not adjusting for over/understated accruals from the prior year).

In many cases, the dollar amount of error identified by the SCO was small in relation to each court's total reported revenues and expenditures. Nevertheless, Audit Services has summarized the SCO's observations in the table below so readers can quickly understand the issues. Additional details on each finding are contained in the SCO's individual audit reports, which are posted on the Judicial Council's website.

	Revenue Comments	Expenditure Comments
Court 1	<ul style="list-style-type: none"> • Court recorded adjustment to prior year accrual without using GL 899910, thereby understating TCTF revenue for current year. • Incorrectly posted prior year reimbursements from distribution #14 as current year reimbursements; and 	<ul style="list-style-type: none"> • Overstated current year expenditures for a program by posting un-accrued prior year expenditures as current year items. Instead, these prior year expenditures adjustments should have been recorded in GL 999910.

	<p>did not accrue other current year reimbursements at year-end.</p> <ul style="list-style-type: none"> • Improperly reduced current-year reimbursements for AB 1058 program instead of posting as prior year adjustments via GL 899910. 	
Court 2	<ul style="list-style-type: none"> • Court did not accrue minimal amount (less than \$500) from distribution #14 at year-end and did not use GL 899910. 	<ul style="list-style-type: none"> • Expenditure transactions pertaining to prior year were not accrued and were instead recorded as current year expenditures (i.e. not posting to GL 999910.)
Court 3	<ul style="list-style-type: none"> • Over-accrued revenue from prior year (minimal amounts) without adjusting via GL 899910. 	<ul style="list-style-type: none"> • Did not accrue certain year-end expenditures (minor amounts) which were instead recorded as current year expenditures.
Court 4	<ul style="list-style-type: none"> • Over-accrued court interpreter revenue from the prior year that was never adjusted, thereby misstating current year revenues by over \$100K • Received revenue applicable to the prior year (which had not been accrued) and the court posted the revenue as a current year transaction. 	<ul style="list-style-type: none"> • Court reported expenditures from prior year as current year items. These un-accrued expenditures should have been posted to GL 999910.
Court 5	<ul style="list-style-type: none"> • Did not accrue court interpreter revenues in the prior year (pertaining to distribution #14) and recorded them instead as current year transactions. These prior year revenues should have posted to GL 899910. 	

Recommendations

To ensure trial courts are not misstating current year revenues and expenditures based on activity pertaining to the prior fiscal year, court accounting staff should review how they are using prior-year adjustment accounts GL 899910 and 999910 (for revenue and expenses, respectively). Current-year revenues and expenses should not be affected by the prior year's activity.

In summary, revenue and expenditure transactions from the prior year—that were not accrued—can be posted directly to the PY revenue/expense adjustment accounts (i.e. GL 899910 and 999910). Also, when the prior year's accrual is materially different from the amounts later received or spent, the resulting difference must also be posted to these PY adjustment accounts. Trial court fiscal staff should review the proper use of these general ledger adjustment accounts with their GL leads at the Judicial Council. Trial court staff should also consult with their GL leads when determining whether the differences between accruals and the actual amounts received/paid are material, thus requiring an adjustment.



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 2/1/2022

Action Item #1 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item #1** – Discuss and approve for public posting the State Controller’s audit of Yuba Superior Court.

Supporting Documents:

- ***Attachment B***—Audit report of Yuba Superior Court’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2019-20)

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 for the costs of these audits.

Audit Summary:

The State Controller concluded that Yuba 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 SCO’s audit did identify one audit finding, as summarized below:

Revenue Accounting Error (AB 1058 Program) – The Court’s reported revenue for the AB 1058 program in FY 19-20 was misstated by roughly \$9,000 because the prior year’s revenue accrual was overstated and not properly adjusted. Courts must use the prior year revenue adjustment account (GL 899910) when prior year accruals turn out to be over/under stated based on actual receipts. An adjustment for under/overstated accruals from the prior year ensures the current year’s revenues are not misstated.

Staff recommend the committee approve the audit for public posting.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF YUBA

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

November 2021



BETTY T. YEE
California State Controller

November 19, 2021

Bonnie Sloan, Court Executive Officer
Superior Court of California, County of Yuba
215 5th Street, Suite 200
Marysville, CA 95901

Dear Ms. Sloan:

The State Controller's Office audited the Superior Court of California, County of Yuba (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, 2019, through June 30, 2020.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, our audit identified certain revenues that were not reported correctly for the fiscal year in which they were earned. 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 incorporated into this final report. The Court agreed with our observation and provided a Corrective Action Plan to address the fiscal control weakness and recommendation. 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

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Taryn Kraus, Court Fiscal Manager
Superior Court of California, County of Yuba
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 Yuba (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, 2019, through June 30, 2020.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, our audit identified certain revenues that were not reported correctly for the fiscal year in which they were earned. This issue is described in the Finding and Recommendation 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 California Constitution. 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 describes 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) 2019-20, the Court (County of Yuba) reported revenues of \$7,156,071. The Court receives the majority of its revenue from state financing sources. The Trial Court Trust Fund provided 74.7% of the Court's revenue. For this period, the Court incurred expenditures of \$7,109,274. Personal services (salaries and benefits) comprised 70.1% of total expenditures. The Court employs 53 staff members to serve Yuba County's population of approximately 78,000 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, a Special Revenue Grant Fund, and a Fiduciary Fund. The General Fund, Special Revenue Non-Grant Fund, and Special Revenue Grant 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 Number 58163, dated January 6, 2020, between the SCO and the JCC, pursuant to GC section 77206 (h)(2).

**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.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with Government Code, properly supported by documentation, and recorded accurately in the accounting records;
- Expenditures were incurred pursuant to Government Code, 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.

The audit period was July 1, 2019, through June 30, 2020.

To accomplish our objective, we performed the following procedures:

General Procedures

- We reviewed the *Judicial Council Governance Policies* (November 2017), the FY 2019-20 Budget Act, the *Manual of State Funds*, applicable sections of Government Code, the California Rules of Court, the *Trial Court Financial Policies and Procedures Manual* (10th edition, June 2019), and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Controls

- We 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.
- We interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- We 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.
- We reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the Court's financial and human resources systems; (2) reviewing Court policies; (3) agreeing accounting data files to published financial reports; (4) tracing data records to source documents to verify completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key court information systems. We determined that the data was sufficiently reliable for the purposes of achieving our objective.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using a judgmental, non-statistical sampling approach, we selected 23 revenue items and 27 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 found were not projected to the intended (total) 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 Government Code, properly supported by documentation, and recorded correctly in the accounting system.

- Our testing included tests of accounting internal controls and of recorded transaction details. We selected all material financial statement accounts that exceeded 4% of total revenues, and determined that the Trial Court Trust Fund, Court Interpreter, MOU Reimbursements, Other Miscellaneous, AB 1058 Commissioner, and Enhanced Collections accounts were material. We tested these accounts through combined sampling, analytical procedures, inquiries, and review of source documents.
- We tested \$6,571,919 of \$7,156,071, or 91.8% of total revenues.

We found errors in an account balance that resulted from unadjusted differences between revenues earned and accrued in the prior year, and remittances received in the current year. The total amount of error is \$9,102. The error affects reported program revenue accounts only, and does not misstate the Court's overall reported total revenue or fund balances.

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, by account, the total revenues, amounts tested, and identified error amounts.

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 Government Code, 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 personal services (payroll) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods (one month each) occurring in September 2019 and April 2020, and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected nine of 53 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay were supported by salary schedules and personnel action forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.

- To test material non-payroll accounts, we:
 - Selected all expenditure transactions that exceeded \$18,000;
 - Selected a sample of 27 expenditure transactions to test internal controls and the accuracy of recorded transactions; and
 - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$1,096,378 of \$7,109,274, or 15.4% of total expenditures.

We found that transactions were properly recorded.

Schedule 2—Summary of Expenditures and Expenditure Test Results presents, by account, the total expenditures and 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 these funds to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedule 2).

- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2020, 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, the total balances and changes in fund balances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the court's internal controls to gaining an understanding of the internal controls that are significant to 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 substantially 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 certain revenues that were not reported correctly for the fiscal year in which they were

earned. This issue is described in the Finding and Recommendation section of this report.

**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 in August 2013. 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 July 30, 2021. Bonnie Sloan, Court Executive Officer responded by letter dated August 13, 2021 (Attachment), agreeing with the audit results.

Restricted Use

This report is solely intended for the information and use of the Superior Court of California, County of Yuba; 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

KIMBERLY TARVIN, CPA
Chief, Division of Audits

November 19, 2021

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2019, through June 30, 2020**

<u>Revenue Accounts</u> ¹	<u>Revenues Reported</u>		<u>Revenues Tested</u>		Error
	Amount	Percentage	Amount	Percentage	Amount ²
<u>State Financing Sources</u>					
Trial Court Trust Fund ^{3,4}	\$5,346,688	74.7%	\$5,346,688	100.0%	\$ -
Improvement and Modernization Fund	9,434	0.1%	-	0.0%	-
Judges' Compensation	-	0.0%	-	0.0%	-
Court Interpreter ³	64,094	0.9%	64,094	100.0%	-
Civil Coordination Reimbursement	-	0.0%	-	0.0%	-
MOU Reimbursements ^{3,4}	647,597	9.0%	492,474	76.0%	-
Other Miscellaneous ³	90,867	1.3%	90,867	100.0%	-
Subtotal	<u>6,158,680</u>		<u>5,994,123</u>		<u>-</u>
<u>Grants</u>					
AB 1058 Commissioner/Facilitator ^{2,3,4}	315,811	4.4%	287,445	91.0%	(9,102)
Other Judicial Council Grants	81,443	1.1%	-	0.0%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	<u>397,254</u>		<u>287,445</u>		<u>(9,102)</u>
<u>Other Financing Sources</u>					
Interest Income	26,468	0.4%	-	0.0%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	-	0.0%	-	0.0%	-
Local Fees	34,749	0.5%	-	0.0%	-
Non-Fee Revenues	5,597	0.1%	-	0.0%	-
Enhanced Collections ^{3,4}	512,199	7.2%	290,351	56.7%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	-	0.0%	-	0.0%	9,102
County Program – Restricted	-	0.0%	-	0.0%	-
Reimbursement Other	20,106	0.3%	-	0.0%	-
Sale of Fixed Assets	-	0.0%	-	0.0%	-
Other Miscellaneous	1,019	0.0%	-	0.0%	-
Subtotal	<u>600,138</u>		<u>290,351</u>		<u>9,102</u>
Total Revenues	<u>\$7,156,071</u>		<u>\$6,571,919</u>		<u>\$ -</u>

¹ Differences due to rounding

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

³ Tested account internal controls

⁴ Material account

Schedule 2— Summary of Expenditures and Expenditure Test Results July 1, 2019, through June 30, 2020

<u>Expenditure Accounts</u> ¹	<u>Expenditures Reported</u>		<u>Expenditures Tested</u>		Error
	Amount	Percentage	Amount	Percentage	Amount ²
<u>Payroll</u>					
Salaries – Permanent ^{2,3}	\$ 3,382,353	47.6%	\$ 117,210	3.5%	\$ -
Temporary Help ²	95,719	1.3%	13,561	14.2%	-
Overtime	788	0.0%	-	0.0%	-
Staff Benefits ^{2,3}	1,503,781	21.2%	579,161	38.5%	-
Subtotal	<u>4,982,641</u>		<u>709,932</u>		<u>-</u>
<u>Operating Expenses and Equipment</u>					
General Expense ^{2,3}	316,080	4.4%	34,349	10.9%	-
Printing	3,166	0.0%	-	0.0%	-
Telecommunications	47,797	0.7%	-	0.0%	-
Postage	46,821	0.7%	-	0.0%	-
Insurance	2,467	0.0%	-	0.0%	-
In-State Travel	23,378	0.3%	-	0.0%	-
Out of State Travel	-	0.0%	-	0.0%	-
Training	9,575	0.1%	-	0.0%	-
Security Services	131,556	1.9%	-	0.0%	-
Facility Operations	97,760	1.4%	-	0.0%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services ^{2,3}	1,208,917	17.0%	352,097	29.1%	-
Consulting and Professional Services	37,189	0.5%	-	0.0%	-
Information Technology	137,990	1.9%	-	0.0%	-
Major Equipment	45,154	0.6%	-	0.0%	-
Other Items of Expense	5	0.0%	-	0.0%	-
Subtotal	<u>2,107,855</u>		<u>386,446</u>		<u>-</u>
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	4,806	0.1%	-	0.0%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	187	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense	13,786	0.2%	-	0.0%	-
Subtotal	<u>18,779</u>		<u>-</u>		<u>-</u>
Total Expenditures	<u>\$ 7,109,274</u>	100.0%	<u>\$ 1,096,378</u>	15.4%	<u>\$ -</u>

¹ Differences due to rounding

² Tested account internal controls

³ Material account

**Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2019, through June 30, 2020**

Balance¹	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Fiduciary Fund	Total
Beginning Balance	\$ 416,550	\$ 111,441	\$ -	\$ -	\$ 527,990
Revenues	6,070,426	688,392	397,254	-	7,156,071
Expenditures	(5,984,703)	(662,896)	(461,675)	-	(7,109,274)
Transfers In	-	30	64,421	-	64,451
Transfers Out	(64,451)	-	-	-	(64,451)
Ending Balance	<u>\$ 437,821</u>	<u>\$ 136,967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 574,788</u>
Errors Noted ²					
Revenues over/(under) stated	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures over/(under) stated	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding

² Classification errors in the Finding did not affect fund balances

Finding and Recommendation

FINDING— Revenue accounting error

The Court did not correctly report revenue earned for its FY 2019-20 AB 1058 grant program. We reviewed the Court's revenue accounts for FY 2019-20 and noted deposits of only \$15,768 for prior-year AB 1058 grant program revenues, whereas the Court accrued \$24,870 at year-end of FY 2018-19. The difference in the amounts received and accrued reflects a \$9,102 shortfall from the Court's expected earned program revenue.

Because of year-end account closing and opening processes, when a revenue is accrued to an account at the end of a fiscal year and is not fully collected in the subsequent fiscal year, the revenue account of the subsequent year incurs a deficit and should be adjusted to correctly report revenue earned in that fiscal year.

The Trial Court Chart of Accounts establishes General Ledger Account Number 899910 – Prior-Year Revenue Adjustment for recording adjustments of accrual-related accounting differences and for recording revenue that was earned and not accrued in the prior year, but received in the current year. The Prior-Year Adjustment account effectively serves to true-up accounting information for financial and budgetary reporting and isolates differences in prior year accrued transactions to prevent them from being commingled with current year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The JCC's Administrative Division staff introduced new guidance for using this account in its FY 2019-20 *Year-End Close Training Manual–General Ledger*. Court staff stated that they were not aware of this guidance to use the Prior-Year Revenue Adjustment account, and also noted that such guidance had not been provided in prior years.

Page 64 of the *Year-End Close Training Manual–General Ledger* states, in part:

Automated Accrual Reversal Process

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal 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.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the *Trial Court Financial Policies and Procedures Manual* 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, as described in the JCC's accounting guidance. Differences that occur in the current year for amounts actually received from amounts accrued in the prior year should be entered in the adjustment accounts.

**Attachment—
Superior Court’s Response to Draft Audit Report**



Superior Court of California County of Yuba

Department of Finance

Hon. Debra L. Givens
Presiding Judge

Bonnie Sloan
Court Executive Officer

Taryn L. Kraus
Court Fiscal Manager

Date: August 13, 2021

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

Dear Mr. James,

Thank you for the opportunity to respond to audit draft report The State Controller's Office (SCO) prepared pursuant to GC section 77206(h)(2) 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 Superior Court of California, County of Yuba (Court) has reviewed the draft audit report and provides the following response:

Finding: The Court did not correctly report revenue earned for its FY 2019-20 AB 1058 grant program. We reviewed the Court's revenue accounts for FY 2019-20 and noted deposits of only \$15,768 for prior-year AB 1058 grant program revenues; whereas the Court accrued \$24,870 at year-end of FY 2018-19. The difference in the amounts received and accrued reflects a \$9,102 shortfall from the Court's expected earned program revenue.

Recommendation: We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, as described in the JCC's accounting guidance. Differences that occur in the current year for amounts actually received from amounts accrued in the prior year should be entered in the adjustment accounts.

Response: Prior to the audit performed by SCO, the Court had reviewed prior publicly available audits and found the Court's procedures needed to be updated in regards to prior-year transactions. Since this review, the Court has been recording prior-year revenue and expenditures to the appropriate prior-year general ledger account. The Judicial Council of California (JCC) had previously instructed courts to use the corresponding general ledger account for prior-year revenues and expenses, however; since the SCO audit has completed, the JCC has issued guidance to begin using prior-year general ledger accounts instead of the corresponding general ledger account.



Superior Court of California County of Yuba *Department of Finance*

We would like to point out the professionalism exhibited by your staff. They went out of their way to make sure the audit was fair and impartial.

If you have any questions or need additional information regarding our response, please contact our Court Executive Officer, Bonnie Sloan, at (530) 740-1626.

Sincerely,

A handwritten signature in black ink, appearing to read "Debra L. Givens".

Debra L. Givens
Presiding Judge

**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: 2/1/2022

Action Item #2 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

- **Action Item #2** – Discuss and approve for public posting the State Controller’s audit of the Judicial Council.

Supporting Documents:

- ***Attachment C***—Audit report of the Judicial Council’s Revenues, Expenditures, and Fund Balance (Fiscal Year 2019-20)

Background:

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

Audit Summary:

The State Controller concluded that the Judicial Council complied with the governing statutes, rules, regulations, and policies for the revenues, expenditures, and fund balances under the council’s control.

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

Fund Balance Reporting Error – Council staff submitted estimated year-end reports to the SCO before accounting transactions were fully recorded and the year closed. Amounts reported for fund balance were at times materially different than actual results. Council staff agree with the finding and plan to review their year-end processing schedule to ensure transactions are closed before submitting required reports to SCO.

Use of Wrong Expenditure GL Account – Council staff recorded certain expenditures associated with the Equal Access Fund program (disbursements to the State Bar) as

consultant costs instead of as grant expenditures. The expenditure amounts were recorded correctly but the incorrect GL account misclassified the type of expense incurred. Council staff agree with the finding and are determining how best to implement stronger controls to avoid similar classification issues.

Employee Accounts Receivable – Council staff have not completed the process of entering and reconciling previously written-off employee accounts receivable. The SCO recommends pursuing and documenting collection activities and following State procedures to write-off uncollectable amounts. Council staff agreed with the repeat finding and indicated it would determine next steps to achieve corrective action.

Staff recommends the committee approve the audit for public posting.

JUDICIAL COUNCIL OF CALIFORNIA

Audit Report

FISCAL COMPLIANCE AUDIT PROGRAM

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

January 2022



BETTY T. YEE
California State Controller

January 20, 2022

Chief Justice Tani G. Cantil-Sakauye, Chair
Judicial Council of California
455 Golden Gate Avenue
San Francisco, CA 94120

Dear Chief Justice Cantil-Sakauye:

The State Controller's Office audited the revenues, expenditures, and fund balances of the Judicial Council of California (Council). We conducted this audit to assess the Council staff's compliance with governing statutes, rules, regulations, and policies for all significant funds under the jurisdiction of the Council staff for the period of July 1, 2019, through June 30, 2020.

Our audit found that Council staff substantially complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, our audit identified misstated fund balances in the Council's year-end fund financial reports and miscoded expenditure account entries in the Council's general ledger. These misstated balances and miscoded entries are described in the Findings and Recommendations section of this report, and should be addressed and corrected by Council staff.

This report is for your information and use. The Council's responses to the findings are incorporated into this final report. The Council agreed with our observations and provided a Corrective Action Plan to address the fiscal control weaknesses and recommendations. We appreciate the Council's willingness to implement corrective actions.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: 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
Judicial Council of California
Grant Parks, Principal Manager
Audit Services, Judicial Council of California
Secretary of the Senate
Office of the Secretary of the Senate
Sue Parker, Chief Clerk
California State Assembly, Office of the Chief Clerk
Amy Leach, Minute Clerk
California State Assembly, Office of the Chief Clerk
Legislative Counsel
Office of Legislative Counsel

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the Judicial Council of California (Council) staff's compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff.

Our audit found that Council staff substantially complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for the period of July 1, 2019, through June 30, 2020.

However, our audit identified misstated fund balances in the Council's year-end fund financial reports. In four of the 17 funds reviewed, the fund balance accounts were incorrectly stated in their respective trial balance reports. The audit did not include all Judicial Branch funds. We also identified certain expenditure transactions that were miscoded and recorded in incorrect accounts in the Council's general ledger.

Background

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

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

We conducted this audit under an Interagency Agreement with the Council, pursuant to Government Code (GC) section 77206(i)(1).

Objective, Scope, and Methodology

We conducted this audit to determine whether the Council complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for the period of July 1, 2019, through June 30, 2020. To achieve our audit objective, we performed the following procedures.

Preliminary procedures

- Reviewed the *Judicial Council Governance Policies* (November 2017), the fiscal year (FY) 2019-20 Budget Act, the *Manual of State Funds*, Government Code, the California Rules of Court, and relevant internal policies and procedures to identify compliance requirements applicable to Council staff for material and significant revenues, expenditures, and fund balances; and

- Followed up on the status of prior findings identified in the SCO's audit report, issued on June 14, 2019.

Internal control procedures

- Reviewed current policies and procedures, organization charts, and the Council's website;
- Interviewed Council staff members to gain an understanding of the Council's internal control system;
- Determined the internal controls that were significant to our audit objective;
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively; and
- Determined the effect on the audit objective of any identified internal control weaknesses.

Data reliability assessment procedures

- Identified the information systems used to process and account for revenues, expenditures, and fund balance transactions;
- Interviewed staff and reviewed documented policies and procedures regarding security, data entry, processing, and reporting to gain an understanding of information technology systems and data significant to the audit objective;
- Compared data with other sources to determine the completeness and accuracy of the data in the Financial Information System for California (FI\$Cal);
- Evaluated electronic access controls for FI\$Cal; and
- Determined whether the system data was sufficiently reliable for conducting the audit.

Substantive testing procedures for revenues, expenditures, and fund balances

Based on the results of our preliminary procedures and assessments, we designed substantive tests of revenues and expenditures to determine whether they were (1) consistent with governing statutes, rules, and regulations, the policies and procedures of the Council, and the State Administrative Manual; (2) properly supported by documentation; and (3) recorded accurately in the accounting records. Our revenue and expenditure testing included:

- Identifying the total revenue and expenditure amounts recorded in each fund under the administration, jurisdiction, or control of Council staff;
- Determining which funds have revenues and expenditures in excess of two percent of total revenues and expenditures within the fund;

- Selecting representative samples of transactions to test from revenues and expenditure accounts determined above. We selected non-statistical samples on a judgmental basis, and did not project the results of testing to the intended (total) population; and
- Examining transaction samples to verify that revenue and expenditure amounts are accounted for in accordance with Government Code, are properly supported with adequate documentation, and are accurately reported in the accounting records.

Based on the results of our preliminary procedures and assessments, we designed substantive tests of fund balances to determine whether fund balances were recorded on the Legal/Budgetary basis of accounting, and maintained in accordance with fund accounting principles. Our fund balance testing included:

- Judgmentally selecting a sample of funds with fund balances over \$100 million, as of June 30, 2020, or with balances that fluctuated by more than 25 percent from the prior period;
- Recalculating the sampled fund balances to verify that amounts reported are accurate; and
- Considering the results of revenue and expenditure testing to assess whether transactions were reported on the Legal/Budgetary basis of accounting and recorded in accordance with fund accounting principles.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our audit to evaluating the compliance of revenues, expenditures, and fund balances for material and significant funds under the administration, jurisdiction, or control of Council staff. We did not audit the Council staff's accounting records for the Supreme Court, Court of Appeal, or the Habeas Corpus Resource Center, as the review and approval authority for these transactions remains with those programs.

Conclusion

Our audit found that Council staff substantially complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, our audit identified misstated fund balances among the Council's year-end fund financial reports. These misstatements are described in the Findings and Recommendations section of this report and should be addressed and corrected by Council staff.

Follow-up on Prior Audit Findings

The Council has satisfactorily resolved the findings noted in our prior audit report, issued June 14, 2019, with the exception of current Finding 2. See the Appendix for the current-year status of prior audit findings

**Views of
Responsible
Officials**

We issued a draft report on December 13, 2021. John Wordlaw, Chief Administrative Officer, responded by letter dated December 17, 2021, agreeing with the audit results. This final report includes the Judicial Council of California's response.

Restricted Use

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

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

Sacramento, California

January 20, 2022

Findings and Recommendations

FINDING 1— Misstated year-end fund financial reporting

We reviewed the FY 2019-20 year-end fund financial reports for 17 of the Council's operating funds and found incorrectly stated fund balance accounts in four of the funds. The four funds include the General Fund (0001), the Public Buildings Construction Fund (0660), the Public Buildings Construction Sub-Fund (0668), and the Trial Court Trust Fund (0932).

For each fund, Council staff members prepare various year-end fund financial reports with a signed certification letter. The reports are assembled in a Certification of Year-End Financial Reports packet and submitted to the SCO, which uses the reports to prepare the State's Budgetary/Legal Basis Annual Report.

The reporting packet includes a Pre-Closing Trial Balance (Report No. 7) and a Post-Closing Trial Balance (Report No. 8). The fund beginning balance account in the current year's Pre-Closing Trial Balance should match the prior year's account ending balance reported in the Post-Closing Trial Balance.

When comparing reports, we found differences in balances between years. In each of the four funds, the fund balance accounts in Pre-Closing Trial Balance report of the audit year FY 2019-20 did not match the the fund balance accounts reported in the prior year's Post-Closing Trial Balance report. We noted the following differences in amounts reported for the fund balance accounts:

Fund	FY 2018-19 (Report No. 8) Ending Balance	FY 2019-20 (Report No. 7) Beginning Balance	Difference
General Fund (0001)	\$ 40,948,598	\$ 7,664,618	\$ 33,283,980
Public Buildings Construction Fund (0660)	239,911,912	(94,700,602)	334,612,514
Public Construction Fund Sub-Account (0668)	2,218,199	(75,318)	2,293,517
Trial Court Trust Fund (0932)	(121,479,460)	(121,323,220)	(156,240)

Differences were reconciled by the Council's accounting staff. Staff members explained that differences occurred in part because of changes in accounting systems. In FY 2018-19, the Council transitioned from an Oracle-based system of accounting and reporting to the FI\$Cal system. In order to properly prepare year-end trial balance reports, Council staff members must request that FI\$Cal build a budgetary/legal ledger report. The budgetary/legal ledger is the basis for Pre-Closing Trial Balance and Post-Closing Trial Balance reports. Council staff members currently prepare year-end reports manually using SCO templates.

We also compared the FY 2019-20 Post-Closing Trial Balance report generated by FISCAL to the Council's manually prepared Post-Closing Trial Balance report submitted to the SCO. We noted the following differences in fund balance amounts:

Fund	FY 2019-20 FISCAL Post-Closing Trial Balance	FY 2019-20 Council Post-Closing Trial Balance	Difference
Court Interpreters Fund (0327)	\$ (793,518)	\$ (1,226,996)	\$ (433,478)
Public Buildings Construction Fund (0660)	197,149,361	197,049,107	(100,254)
Public Construction Fund Sub-Account (0668)	7,773,872	943,522	(6,830,350)
Trial Court Trust Fund (0932)	(86,680,734)	(86,699,867)	(19,133)

Recommendation

We recommend that Council accounting staff members:

- Request FISCAL support to build the budgetary/legal ledgers; and
- Review their year-end schedule for closing accounts and preparing fund financial reports to anticipate potential delays or difficulties in securing the budgetary/legal ledger report.

FINDING 2— Account coding error

We reviewed a sample of transactions for the purpose of testing internal controls over expenditure processing and identified a disbursement that was recorded in an incorrect expense account. Our sample selection included a voucher payment of \$14,850,000 to the State Bar of California to provide grant funds for the Homelessness Prevention Legal Services program. The entry was recorded in account number 5340410—External Consulting and Professional Accounting Services, but should have been recorded in account number 5432500—Grant and Subventions – Non-Governmental.

We confirmed the coding error with the Council's accounting unit. Upon further review of disbursements shown in the general ledger for account number 5340410, we noted additional miscoded entries. A total of \$42,585,555 in combined disbursements was miscoded in account number 5340410.

The first accounting entry in a system that transacts program expenditures is typically a purchase requisition, which is used to create a purchase order. The requisition is the first point of authorization and review in the system's automated payment and ledger processing. We determined that a purchase requisition had been coded with an incorrect account number.

The money was largely appropriated from the state General Fund (0001); a small amount was appropriated from the state Trial Court Trust Fund (0932). According to the Council's accounting unit, the error has little to no effect on the State's financial reporting, although there may be some effect on program budget management and reporting results. Although this error has only a minor effect on the State's financial reporting, it shows that errors can occur and potentially result in material misstatements.

Recommendation

We recommend that the Council strengthen its review of purchase requisitions and invoices to ensure that coding is correct, and to prevent incorrect information from being recorded in FI\$Cal.

**FINDING 3—
Deficiency in
collection of
outstanding
employee accounts
receivable
(repeat finding)**

In our follow-up on findings from the previous audit report, we found that the Council has partially implemented corrective actions. The Council restored a number of employee accounts receivable that had been written off during FY 2019-20. However, in FY 2019-20, the Council did not write off any receivables deemed uncollectible or apply to the SCO for a discharge of accountability, as recommended in the prior audit report.

The prior report states that discharges from liability are allowed under GC sections 12433 through 12439 (Article 2.5, “Discharge of State Entity from Duty to Collect”) only through an application filed with, and approved by, the State Controller.

The Council has not completed the process of entering and reconciling all previously written off employee accounts receivable balances and obtaining appropriate supporting documentation to correctly recover the amount or write off the receivable. However, Council staff members indicated that they were able to identify accounts receivable that existed as of June 30, 2018. They also indicated that the Council’s accounting staff is continuing to enter and reconcile these amounts, and to work with human resources staff to obtain appropriate supporting documentation for either correctly discharging or recovering the receivables.

This is a repeat of a prior audit finding.

Recommendation

We recommend that Council accounting and human resource staff members:

- Continue their efforts to restore previously-discharged employee receivables;
- Obtain appropriate supporting documentation; and
- Follow guidelines to recover amounts owed from current and former employees. If collection efforts do not result in payment, the Council should follow the suggested process to apply for discharge of accountability with the SCO.

Appendix— Status of Prior Audit Findings

The following table shows the implementation status of corrective actions related to the findings contained in the prior fiscal compliance audit report dated June 14, 2019:

Prior Audit Finding Number	Prior Audit Finding Title	Implementation Status
1	Inadequate segregation of duties within the payroll function	Fully implemented
2	Deficiency in collection of outstanding employee accounts receivables	Partially implemented – see current Finding 3
3	Lack of reconciliation process for employee accounts receivables	Fully implemented

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



JUDICIAL COUNCIL OF CALIFORNIA

2860 Gateway Oaks Drive, Suite 400 • Sacramento, California 95833-4336

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

MARTIN HOSHINO
Administrative Director

JOHN WORDLAW
Chief Administrative Officer

December 17, 2021

Ms. Kimberly Tarvin, CPA
Chief, Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, California 94250

****Delivered via email****

Dear Ms. Tarvin:

The Judicial Council of California is committed to financial accountability and transparency, and I thank you and your audit staff for their detailed review of our operations for fiscal year 2019–20. The biennial audit performed by the State Controller's Office (SCO) is an important management tool to ensure that we continue to follow the State's accounting and administrative rules, while identifying opportunities for improvement.

I am pleased that the SCO's report concluded that the Judicial Council "substantially complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for the period of July 1, 2019, through June 30, 2020." Nevertheless, the Judicial Council recognizes and places great importance on addressing the three audit findings noted in the draft audit report. We agree with the SCO's audit findings, and we will review our fiscal and administrative practices to address the report's recommendations. Each of the report's recommendations (shown in italics) and our responses are provided below.

Recommendation #1—Improving Year-End Reporting of Fund Balance

We recommend that Council accounting staff members:

- *Request FISCAL support to build the budgetary legal ledgers; and*
- *Review their year-end schedule for closing accounts and preparing fund financial reports to anticipate potential delays or difficulties in securing the budgetary legal ledger report.*

Judicial Council's Response

The audit noted discrepancies between the fund balance amounts reported to the SCO—under our year-end budgetary/legal basis reporting—and comparable amounts recorded in FISCAL. The discrepancies were the result of accounting staff manually preparing year-end reports for the SCO before finalizing transactions in the accounting system and submitting a “ticket” to FISCAL to build the budgetary legal ledger. Accounting staff decided to submit manually generated reports out of a desire to meet the SCO’s reporting deadlines while also satisfying the review needs of other internal stakeholders (such as the council’s budget staff).

The Judicial Council—like many other state departments—continues to learn and gain familiarity with FISCAL and the year-end closing process. Going forward, the council’s accounting staff are considering how best to modify their internal year-end processing and review schedules—which affect other units within the council—to ensure that they can request from FISCAL the budgetary legal ledger in time to prepare and submit the required year-end reports to the SCO. The Judicial Council will coordinate with the SCO and FISCAL regarding whether additional steps are required for its year-end budgetary/legal basis reporting for fiscal year 2019–20.

Recommendation #2—Recording Expenditures in the Proper General Ledger Account

We recommend that the Council strengthen its review of purchase requisitions and invoices to ensure that coding is correct, and to prevent incorrect information from being recorded in FISCAL.

Judicial Council's Response

The annual Budget Act appropriates funding to the Judicial Council for grants to the State Bar under the Equal Access Fund grant program. The Judicial Council’s accounting staff agree that these transactions should have been recorded as grants instead of as expenditures for external consulting services. For context, the State Bar is the primary administrator of the grant program, and its responsibilities include selecting specific grant recipients and monitoring their

compliance with grant rules. Each year, council staff fully brief members of the Judicial Council on the Legislature's appropriations and the resulting amounts to be provided to the State Bar.

The SCO's audit finding correctly takes issue with how these expenditures were classified within FISCal (as consultant costs instead of grant spending); however, we believe this error does not affect the total amounts the council reported for its revenues, expenditures, and fund balance.

The council's accounting, budget, and program staff will discuss how best to implement a control to ensure that the appropriate general ledger code is assigned and reviewed before recording the expenditure in FISCal.

Recommendation #3—Employee Accounts Receivable

We recommend that Council accounting and human resources staff members:

- *Continue their efforts to restore previously discharged employee receivables;*
- *Obtain appropriate supporting documentation; and*
- *Follow guidelines to recover amounts owed from current and former employees. If collection efforts do not result in payment, the Council should follow the suggested process to apply for discharge of accountability with the SCO.*

Judicial Council's Response

Judicial Council staff agree with this finding and recommendation. Staff appreciate the SCO's conclusion that we have corrected a previous and related finding regarding our reconciliations of employee accounts receivable. We also agree that additional emphasis is needed to correct this repeat finding. Staff from accounting and human resources will be meeting with the council's executive management to develop a plan for finalizing our corrective action. Our goal is to have this issue resolved before the SCO's next audit of the council.

Again, the Judicial Council greatly appreciates the work and professionalism of the SCO's audit team. Your review and observations will help us to further refine and improve our processes. If

Ms. Kimberly Tarvin, CPA
December 17, 2021
Page 4

you have any questions regarding this response, please contact Mr. Grant Parks, Principal Manager, Judicial Council Audit Services, for more information.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Wordlaw".

John Wordlaw
Chief Administrative Officer
Judicial Council

JW/GP

cc: Joel James, Bureau Chief, Division of Audits, State Controller's Office
Martin Hoshino, Administrative Director, Judicial Council
Millicent Tidwell, Chief Deputy Director, Judicial Council
Jason Lopez, Director, Branch Accounting and Procurement, Judicial Council
Aurora Rezapour, Director, Human Resources, Judicial Council
Grant Parks, Principal Manager, Audit Services

**State Controller's Office
Division of Audits
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JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 2/1/2022

Action Item #3 – (Action Required)

External Audit – State Auditor’s Office

Requested Action:

- **Action Item #3** – Discuss and approve for public posting the State Auditor’s audit of the Judicial Council.

Supporting Documents:

- ***Attachment D***—Audit report of the Judicial Council’s procurement practices

Background:

Section 19210(c) of the Public Contract Code requires the State Auditor’s Office to audit biennially the Judicial Council’s compliance with California Judicial Branch Contract Law.

Audit Summary:

The State Auditor concluded that the Judicial Council complied with the State’s procurement policies and noted council staff have made significant improvement in implementing prior recommendations. The State Auditor’s report noted the Judicial Council has:

- contracting manuals and policies that comply with legal and administrative requirements;
- sufficient controls over its procurement process;
- addressed prior recommendations by improving its vendor payment process; and
- demonstrated public accountability and transparency by providing timely and reliable information on FI\$Cal’s public transparency websites.

Staff recommends the committee approve the audit for public posting.



January 13, 2022

2021-302

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

Dear Governor and Legislative Leaders:

This report concludes that over the past decade in which the California State Auditor's Office (State Auditor) has been responsible for regularly auditing the Judicial Council of California (Judicial Council), the Judicial Council has made substantial progress in its procurement and payment policies and practices. The Judicial Council is the policymaking body of the California courts. Under the leadership of the Chief Justice and in accordance with the California Constitution, the Judicial Council is responsible for ensuring the consistent, independent, impartial, and accessible administration of justice.

In 2011 the State enacted the California Judicial Branch Contract Law (judicial contract law), which requires Judicial Branch entities to comply with the provisions of the Public Contract Code that apply to state agencies and departments for the procurement of goods and services, subject to certain exceptions. The judicial contract law also requires the State Auditor, subject to legislative appropriation, to conduct a biennial audit of the Judicial Council's compliance with the judicial contract law. We have conducted five biennial audits of the Judicial Council and issued 24 recommendations for the Judicial Council to improve its procurement and payment policies and practices. The text box lists our past four audit reports. In our most recent audits, the Judicial Council has consistently implemented all recommendations. As a result, the Judicial Council has strengthened its procurement and payment policies and practices.

In fall 2021, we contracted with the nationally recognized consulting firm Kearney & Company (consultant), which has in-depth experience auditing procurement processes in the federal court system. Our consultant evaluated the Judicial Council's procurement and payment policies and performed a detailed review of more than 50 procurements and more than 60 payments executed by Judicial Council staff. Our consultant determined that, in all material respects, the Judicial Council is in compliance with the judicial contract law. Specifically, our consultant reached the following conclusions:

- **Procurement policies:** As required, the Judicial Council's contracting manuals are consistent with requirements in state law and certain state administrative manuals.
- **Procurement processes:** The Judicial Council has implemented, and its staff are consistently following, appropriate procurement controls and practices.

Past Reports on Judicial Council Procurement

- **December 2019:** Judicial Council of California Letter Report (2019-302)
- **December 2017:** Judicial Council of California: It Needs to Follow Competitive Bidding Processes More Consistently and Establish Clear Guidance for Invoice Processing (2017-302)
- **December 2015:** Judicial Branch Procurement: Although the Judicial Council Needs to Strengthen Controls Over Its Information Systems, Its Procurement Practices Generally Comply With Applicable Requirements (2015-302)
- **December 2013:** Judicial Branch Procurement: Semiannual Reports to the Legislature Are of Limited Usefulness, Information Systems Have Weak Controls, and Certain Improvements in Procurement Practices Are Needed (2013-302/2013-303)

Source: [California State Auditor's Office](#).

- **Payment processes:** The Judicial Council staff are consistently following requirements in its contracting manual and its internal procedures related to vendor payments.
- **Annual procurement reports:** The Judicial Council is accurately reporting required information on payments and contracts to the Legislature and the State Auditor's Office. It is also reporting this information through the public transparency website of the Financial Information System of California (FI\$Cal).

The Judicial Council's Contracting Manuals Comply with Legal and Administrative Requirements

The Judicial Council maintains a judicial contracting manual for the various Judicial Branch entities, such as the Superior Courts. It also maintains its own procurement manual (local manual). The judicial contract law requires that these manuals be consistent with the Public Contract Code, which governs contracts entered into by public entities, as well as certain state administrative manuals that provide additional procurement guidance. Our prior audits found that the judicial contracting manual and local manual generally complied with these requirements but that the Judicial Council could better ensure that both manuals were routinely updated with relevant changes that had been made in the Public Contract Code or state administrative manuals. The Judicial Council fully implemented these recommendations regarding updates to the manuals. Our consultant found in its review that the judicial contracting manual remains consistent with the requirements in the Public Contract Code and state administrative manuals. In addition, our consultant determined that the local manual conforms to the judicial contracting manual.

The Judicial Council Has Sufficient Controls Over Its Procurement Process

Although the Judicial Council had problems with its procurement process in the past, it has improved its process in response to our reports. In December 2013 our first audit of the Judicial Council's procurements identified weaknesses in the Judicial Council's process, such as not always using competitive bidding for procurements exceeding the State's dollar threshold. Subsequent audits also identified some problems in the Judicial Council's procurement process, including not obtaining proper management approval on sole-source contracts. Over the last eight years, the Judicial Council has made improvements to its procurement process by implementing our audit recommendations. For this audit, our contractor reviewed more than 50 procurements, testing for compliance with the judicial contracting manual and the Judicial Council's internal procedures. Our contractor looked specifically at requirements related to competitive bidding and sole-source contracting. Based on this review, our contractor did not identify any issues related to the Judicial Council's procurement process.

The Judicial Council Has Improved Its Payment Processes

In general, our audits have found that the Judicial Council staff follow its payment processes and that these processes are sufficient. However, our 2017 audit found that, out of the 60 payments we tested, three did not comply with the judicial contracting manual. Two did not have proof that the Judicial Council received the goods and services. In a third payment, the Judicial Council paid an invoice dated a year before the corresponding purchase order was created. To resolve these issues, we recommended that the Judicial Council develop a document with clear invoice-processing

procedures for its accounting staff, and the Judicial Council resolved this recommendation through its transition to FI\$Cal. In our 2019 audit, we did not identify any subsequent concerns with payments. In this audit, our consultant selected more than 60 payments for review and determined that all the payments complied with the requirements of the judicial contracting manual and the Judicial Council's procedures.

The Judicial Council Provides Transparency on Its Financial Information

The Judicial Council is reporting timely and reliable information on its procurements and payments. Previously, state law required the Judicial Council to submit semiannual reports to the Legislature and our office on certain financial activities, such as payments to contractors or vendors. Although some of our past audits had identified issues with these semiannual reports, in August 2020, the Legislature passed a bill that changed the Judicial Council's reporting responsibilities. Effective January 2021, the Judicial Council must submit only an annual report to the Legislature and our office, but it must also make its contract and payment information available to the public via FI\$Cal's public transparency website. Consequently, our consultant performed procedures to assess the reliability of the Judicial Council's financial information in both FI\$Cal and its reports to the Legislature for July 1, 2019, through June 30, 2021. Our consultant determined that the information was reliable.

Our consultant conducted this audit under the authority vested in the California State Auditor by Government Code section 8546 and according to generally accepted government auditing standards. Those standards require that the consultant 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 specified in the Scope and Methodology section of the report. Based on our review of the consultant's work product, we believe that the evidence obtained provides a reasonable basis for the findings and conclusions contained in this audit report.

Respectfully submitted,



MICHAEL S. TILDEN, CPA
Acting California State Auditor

January 13, 2022

APPENDIX

Scope and Methodology

The State Auditor contracted with Kearney & Company to complete this audit. The audit was conducted according to audit requirements contained in the Public Contract Code section 19210, the judicial contract law, and the standards of the U.S. Government Accountability Office, which the State Auditor is statutorily required to follow. The judicial contract law requires the State Auditor, upon legislative appropriation, to perform biennial audits of the Judicial Council. The table lists the audit objectives we developed and the methods Kearney & Company used to fulfill those objectives.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1 Determine whether the judicial contracting manual is consistent with the requirements set forth in the judicial contract law.	Compiled revisions to the contract code, <i>State Administrative Manual</i> , and <i>State Contracting Manual</i> from July 1, 2019, through June 30, 2021, and determined whether the judicial contracting manual reflected relevant revisions and whether it was consistent with requirements set forth in the judicial contract law.
2 Determine whether the Judicial Council's local manual conforms to the judicial contracting manual.	Determined whether any revisions made to the judicial contracting manual were reflected in the local manual.
3 Assess the Judicial Council's internal controls over procurement practices and then determine whether it complied with those controls and other key requirements, including requirements related to competitive bidding and sole-source contracting.	<ul style="list-style-type: none"> • Reviewed the judicial contracting manual, the local manual, and the Judicial Council's procedures, and also interviewed staff to assess the Judicial Council's internal controls over contracting and procurement. • Used data from FISCAL to identify all Judicial Council procurements for the period from July 1, 2019, to June 30, 2021. • Tested a selection of procurements including contract agreements, purchase orders, and contract amendments for compliance with the requirements of the judicial contracting manual and the local manual, including requirements regarding procurement approval, segregation of duties, competitive bidding, and other key controls.
4 Assess the Judicial Council's internal controls over payment practices and determine whether it complied with those controls.	<ul style="list-style-type: none"> • Reviewed the judicial contracting manual, local manual, and the Judicial Council's procedures, and interviewed staff to assess the Judicial Council's internal controls over payments. • Made a selection of invoice payments from the procurements reviewed in Objective 3. Tested the selected payments for compliance with requirements of the judicial contracting manual and other procedure documents, including requirements concerning invoice approval, proper authorization, and segregation of duties.
5 Evaluate the Judicial Council's contracts to determine whether the Judicial Council inappropriately split any contracts to avoid necessary approvals or competitive bidding requirements.	<ul style="list-style-type: none"> • Confirmed that the judicial contracting manual still prohibits Judicial Branch entities from splitting transactions costing more than \$10,000 into multiple transactions costing less than \$10,000. • Used data from FISCAL to identify vendors from which the Judicial Council made multiple procurements of less than \$10,000 for the period between July 1, 2019, through June 30, 2021. • For a selection of procurements from vendors with multiple payments less than \$10,000, assessed procurement documentation to determine whether any of those multiple procurements should have been a single competitively bid procurement. We found none.

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AUDIT OBJECTIVE	METHOD
6 Assess the reliability of data in the Judicial Council's semiannual reports on Judicial Branch contracts and payments, as necessary, for the purpose of establishing testing selections.	<ul style="list-style-type: none">• Obtained data from FI\$Cal that the Judicial Council used to generate the semiannual reports for the period of July 1, 2019, through June 30, 2021.• For a selection of hard-copy procurement files, determined whether the selected procurements were accurately recorded in the semiannual report and in FI\$Cal.• For a selection of payment invoices from the semiannual reports, reviewed the hard-copy invoice records related to each payment to verify that the amounts in the semiannual reports matched the amount on the invoices.• Determined that these data are sufficiently reliable for the audit purpose of selecting our testing items, and for relying on the information the Judicial Council provided in its semiannual reports.• We did not identify any reportable findings related to this objective.

Source: Audit workpapers.