



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

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

AUDITS AND FINANCIAL ACCOUNTABILITY COMMITTEE

OPEN MEETING WITH CLOSED SESSION AGENDA

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

THIS MEETING IS BEING CONDUCTED BY ELECTRONIC MEANS

OPEN PORTION OF THIS MEETING IS BEING RECORDED

Date: June 29, 2022
Time: 12:15 – 1:15 PM
Public Videocast: <https://jcc.granicus.com/player/event/1831>

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 February 1, 2022 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. Only written comments received by 12:15 pm on June 28, 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

Annual Audit Plan – Fiscal Year 2022-23 Action Required)

Discuss and approve the scope of audits for fiscal year 2022-23 based on risk and available audit staff resources.

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 Colusa Superior Court'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 Controller's Office (Action Required)

Review and approve for public posting the State Controller's recent audit of Madera Superior Court's revenues, expenditures, and fund balance or 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 4

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

Review and approve for public posting the State Controller’s recent audit of Tulare Superior Court’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 5

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

Review and approve for public posting the State Controller’s recent audit of Ventura Superior Court’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

V. ADJOURNMENT

Adjourn to closed session.

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

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 Orange 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 Barbara 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 Stanislaus 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

February 1, 2022
12:15 p.m. - 1:15 p.m.
Conference Call

Advisory Body Members Present: Hon. David Rosenberg, Hon. Arthur A. Wick, Mr. Neal Taniguchi, Hon. Arthur A. Wick, Hon. Salvatore T. Sirna, Ms. Kate Bieker, Mr. Charles Johnson, Mr. Michael Powell;

Advisory Body Members Absent: Mr. Phil Jelcich (non-voting advisory member);

Others Present: Mr. Grant Parks (Principal Manager, Judicial Council Audit Services), Ms. Dawn Tomita (Manager, Judicial Council, Audit Services), Ms. Michelle O'Connor (Senior Auditor, Judicial Council Audit Services), Mr. Joe Meyer (Senior Auditor, Judicial Council Audit Services), Ms. Ann Greth (CEO, Alpine Superior Court), Ms. Dawn Harmon (CEO, Amador Superior Court), Ms. Esperanza Esparza (CEO, Del Norte Superior Court), Ms. Lesley Plunkett (HR Manager, Del Norte Superior Court), Ms. Pamela Foster (CEO, Inyo Superior Court), Lindsay Eropkin (Court Operations Manager, Inyo Superior Court), Walter Eissmann (Finance Director, Santa Clara Superior Court), Ms. Melissa Fowler-Bradley (CEO, Shasta Superior Court), Mr. Andrew Lund (Chief Financial Officer, Shasta Superior Court), Ms. Lisa Jenkins (Court Services Manager, Shasta Superior Court), Ms. Stephanie Hansel (CEO, Sutter Superior Court), Mr. Joe Azevedo (Court Fiscal Officer, Sutter 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. New Committee Members introduced themselves.

Approval of Minutes

Ms. Bieker moved to approve the minutes of the July 15, 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

Mr. Parks provided information on audit progress and staffing. Audit Services currently employs six auditors who are assigned full time to perform court audits. Audit Services has four vacant positions and is in the process of filling one of these positions. Auditors are currently working on four court audits: Nevada, Orange, Stanislaus, and Santa Barbara.

The office's approach was to review courts' cash handling controls, with courts' permission. Due to COVID-19 health protocols and safety concerns, courts were given an option to opt out of on-site cash handling audits. A few courts opted out of on-site cash handling reviews.

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. One audit report will be reviewed at today's meeting. Traditionally one of the challenges identified during these audits has been failing to adjust prior-year accruals which didn't materialize in the subsequent year. Audit Services issued an audit advisory in July of 2021 to clarify this issue for the courts.

The State Controller's Office (SCO) has also completed an audit of the Judicial Council's revenues, expenditures, and fund balance.

Finally, the California State Auditor's Office (CSA) recently completed an audit of the Judicial Council's procurement practices, which is also included in this meeting's materials.

Info Item 2

General Discussion by Audit Committee Members

Mr. Taniguchi inquired if current budget allows Audit Services to fill all four vacant positions. Mr. Parks shared that Audit Services will possibly fill another vacant position, in addition to the one that is currently in recruitment. However, based on the current budget, it is unlikely that all vacant positions will be filled.

Action Item 1

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

SCO's recent audit of Yuba Superior Court's revenues, expenditures, and fund balance for fiscal year 2019-20 concluded that the court complied with governing statutes and regulations. The only finding relates to using proper adjustments for prior year accruals when those accruals don't materialize. The issue was addressed by audit advisory issued by Audit Services office.

Action: Mr. Johnson moved to approve posting of Yuba audit report (seconded by Judge Sirna). The motion passed by unanimous voice vote of the committee members present.

Action Item 2

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

State Controller audits Judicial Council's revenues, expenditures, and fund balance every other year. This report is for fiscal year 2019-20. The SCO concluded the Council complied with state statutes and regulations over financial reporting and compliance. However, they did identify three issues. The first finding dealt with errors in fund

balance reporting at the end of fiscal year. The second finding noted incorrect usage of general ledger accounts when recording expenditures pertaining to the equal access fund. The last finding had to deal with HR and accounting staff working together to reconcile previously written off employee accounts receivable. Judicial Council agreed with all three findings.

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

Action Item 3

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

Section 19210 of the Public Contract Code requires the State Auditor to biennially evaluate the Judicial Council’s compliance with the Judicial Branch Contract Law. State Auditor acknowledged that Judicial Council addressed all prior recommendations regarding vendor payment processes. The report also noted that Judicial Council demonstrated accountability and transparency by providing timely and reliable information on Fiscal public transparency websites, which allows JC share with public items/services bought and the price paid.

Action: Judge Wick moved to approve posting of this audit report on Judicial Council’s website (seconded by Mr. Johnson). 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 4

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

Non-final audit reports or proposed responses to such reports

Committee members discussed the draft audit report for Alpine Superior Court, per Rule of Court 10.63(c)(1).

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

Item 5

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

Non-final audit reports or proposed responses to such reports

Committee members discussed the draft audit report for Shasta Superior Court, per Rule of Court 10.63(c)(1).

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

Item 6

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

Non-final audit reports or proposed responses to such reports

Committee members discussed the draft audit report for Del Norte Superior Court, per Rule of Court 10.63(c)(1).

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

Item 7

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

Non-final audit reports or proposed responses to such reports

Committee members discussed the draft audit report for Santa Clara Superior Court, per Rule of Court 10.63(c)(1).

Action: Judge Sirna moved to approve this report for posting (seconded by Mr. Taniguchi). 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 Amador Superior Court, per Rule of Court 10.63(c)(1).

Action: Mr. Johnson moved to approve this report for posting (seconded by Judge Wick). 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 Inyo Superior Court, per Rule of Court 10.63(c)(1).

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

Item 10

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

Action: Judge Sirna moved to approve this report for posting (seconded by Ms. Bieker). 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: 06/29/2022

Informational Item #1 – (No Action Required)

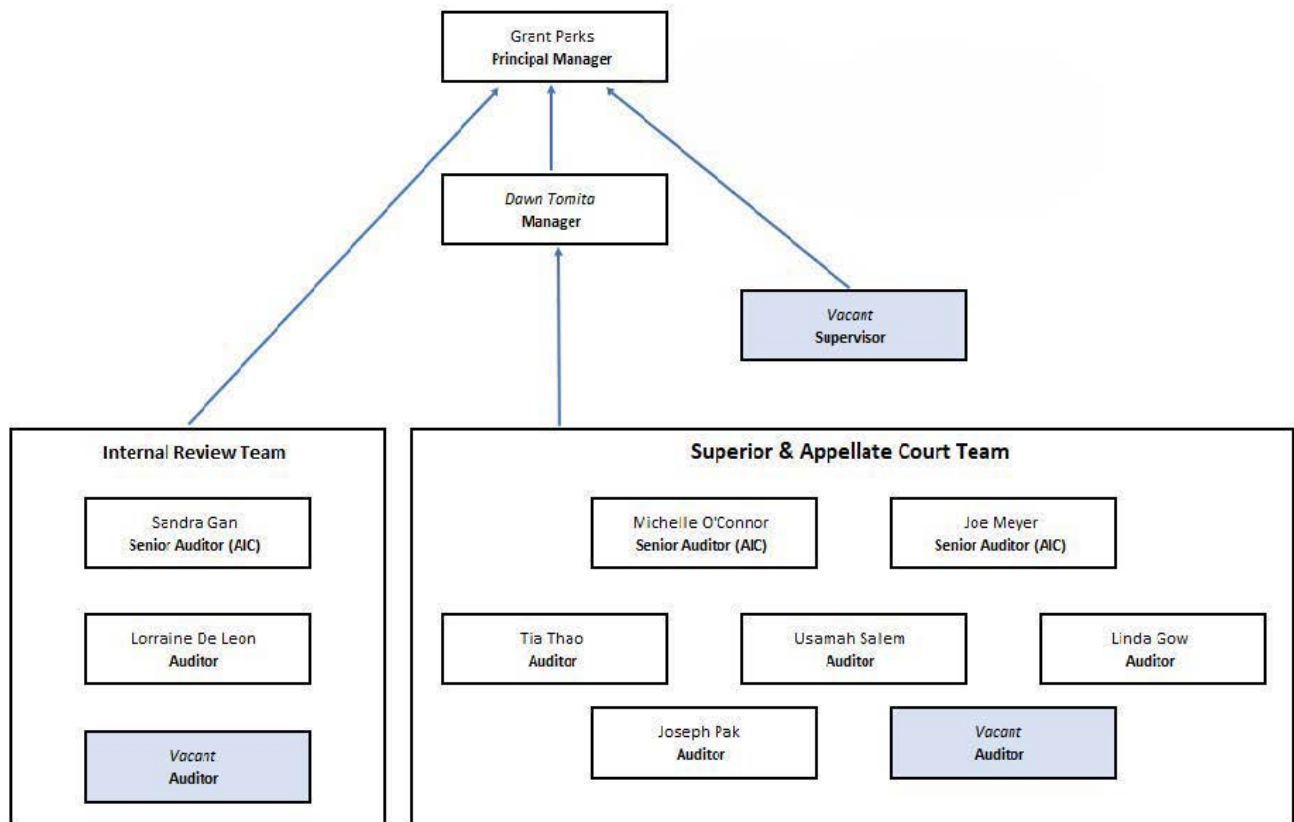
Report from Audit Services

Status Update – Judicial Council’s Audit Services

Workload & Staffing

Audit Services hired two additional auditors and now has 8 audit staff, all of whom are assigned to trial court audit work. The additional resources have been factored into the audit plan you’ll consider later in today’s meeting (action item #1). Audit Services’ organizational chart as of June 15th is depicted below:

**Judicial Council Audit Services - Organization Chart
(6/15/2022)**



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

- Nevada
- Tuolumne
- Mendocino
- Monterey
- El Dorado
- Marin

Nevada is substantially complete awaiting the Court's response, all other audits are carryover engagements from the FY 2021-22 audit plan and are expected to be completed in the first quarter of FY 22-23.

Status of External Audits

State Controller's Office (SCO)

Trial Courts Audit Program (Revenues, Expenditures & Fund Balance)

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 four of these audits today:

- Colusa
- Ventura
- Tulare
- Madera

Last February you reviewed Yuba, which concludes the SCO's contract audit work for FY 20-21. The SCO's work for FY 21-22 (Calaveras, Fresno, Humboldt, San Bernardino, and San Luis Obispo) is in progress. For the upcoming FY 22-23 audit list, the SCO has selected Alameda, Butte, Contra Costa, Kings, and Lake superior courts.

Fine & Fee Revenue Distribution Audits

The SCO has roughly 12 audits in progress. These audits focus on whether the courts and their respective counties correctly collected and distributed criminal fine and fee revenue per the TC-31 process.

State Auditor's Office (CSA)

This biennial audit is required per Public Contract Code, Section 19210(a)(1) and (a)(3), which focuses on five selected courts' compliance with the Judicial Branch Contract Law. The Legislature appropriates \$325,000 for this recurring audit. This work is expected to be completed by January 15, 2023 (roughly 6.5 months from now).



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ADVISORY COMMITTEE ON AUDITS AND
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Meeting Date: 6/29/2022

Action Item #1 – (Action Required)

2022-2023 Annual Audit Plan

Requested Action:

- **Action Item #1** – Discuss and approve the draft annual audit plan for fiscal year 2022-23.

Supporting Documents:

- ***Attachment A***—Draft Audit Plan (Fiscal Year 2022-23).

Background:

One of the audit committee’s primary responsibilities under California Rules of Court, Rule 10.63(c)(1) is to “review and approve a yearly audit plan for the judicial branch...” The proposed audit plan for fiscal year 2022-23 is provided as Attachment A and represents audit staff’s recommendations to the committee for what should be audited for the coming year. The recommended plan is based on a variety of factors, including areas of risk at the courts and available audit resources within Audit Services.

Last Year’s Audit Findings (2021-22)

So far in fiscal year 2021-22, the audit committee has considered 10 audit reports prepared by the Judicial Council’s Audit Services. Those 10 audit reports contained a cumulative total of 31 audit findings in the following areas:

- Vendor Payment Processing – 13 findings (42%)
- Procurement – 10 findings (32% of total)
- JBSIS Reporting of Case Filings – 4 findings (13%)
- Criminal Fine & Fee Revenue Distributions – 2 findings (6%)
- Fund Balance Cap and Encumbrances – 2 findings (6%)

Overall, the audit results show that most courts reviewed are well-managed with few findings. 8 of the 10 courts had 3 or fewer findings (while 2 courts had only 1 finding and another court had no findings at all).

Regardless, the most common findings at the courts in FY 21-22 were:

- *Vendor Payment Processing* – lack of documentation to support the “3-point match” process required in the FIN Manual (matching the contract/PO to the invoice and evidence of goods receipt prior to payment authorization). The FIN Manual also requires certain information to be included on claims submitted by in-court service providers (court reporters, interpreters, etc.) prior to paying the claim (such as case numbers and names).
- *Procurement* – lack of procurement requisitions to demonstrate management’s approval to begin a solicitation (i.e., demonstrating there was a legitimate business need and funds were available). At times, we also noted the lack of documentation to explain why certain solicitations did not follow competitive bidding rules noted in the Judicial Branch Contracting Manual (JBCM).

Changes to the Audit Plan for Fiscal Year 2022-23

Audit Services proposes the following changes to the audit plan:

- ***Resume testing of cash handling controls:*** This has historically been the highest risk area at the courts generating the most audit findings. Audit Services plans to consistently perform this work in FY 22-23, which will entail onsite visits to the courts to observe their controls in operation. During FY 21-22, courts had the option to request/decline this work based on public health and local courthouse access restrictions.
- ***Eliminate AB 1058 Grant Testing:*** In February 2020, the Judicial Council’s Center for Families, Children, and the Courts (CFCC) requested that the AB 1058 grant program be included in the standard audit scope. The committee approved the request and work began in mid FY 2019-20. This work has now been performed for two consecutive years (FY 2020-21 and 2021-22) with no findings. Audit Services proposes removing this component from the audit plan for FY 2022-23, and CFCC management do not object to its removal.

These proposed changes are expected to translate to the following changes for the typical court audit budget (shown on the next page). Overall, the revisions to the audit plan will result in an additional 130 hours of work on average (per court), as shown in the table below.

Budget hours by Fiscal Year			
	<u>Current</u>	<u>Proposed</u>	
	2021-2022	2022-2023	Change
Scoping	24	24	0
Cash*	96	240	144
Procurement	80	80	0
Accounts Payable	40	40	0
JBSIS	120	120	0
Fund Balance	32	32	0
Revenue Distribution	32	32	0
AB 1058 Grants	40	0	-40
Enhanced Collections	40	40	0
AIC Leading/Review**	120	146	26
Finding Development	40	40	0
Report Writing	40	40	0
<i>Total</i>	704	834	130

* The 96 hours for "Cash" work is an approximation since several courts requested that we not visit their courts and perform this work in FY 2021-22. The updated 240 hours for "Cash" is based on a medium-sized court with (10 cash collection locations).

** Supervisor Leading / Review Based on 25% of fieldwork.

Special Consideration for Los Angeles:

Los Angeles is due for an audit in FY 22-23 and given its size and financial resources, Audit Services believes it is appropriate to expand our standard sample sizes. For this reason, the expected duration of our fieldwork in Los Angeles (as shown in Table 3) will be longer than other large courts. Some modifications to our approach for Los Angeles are expected to include:

- Expanding the number of cash collection locations visited in person to evaluate controls (e.g., daily opening and close, etc.). For large courts we generally visit up to 16 locations, but for LA we plan to visit around 25.
- Doubling our standard sample sizes for various non-cash related tests of compliance:

- Procurement (increases to 50 sample items)
- Accounts payable / vendor payments (80 items)
- JBSIS data classification / reporting (120 case file reviews)

Overall, most large-sized courts have a budget of roughly 1,064 hours, while Los Angeles is currently budgeted for 1,776 hours of work.

Proposed Audit Schedule (FY 2022-23)

The proposed schedule below—taken from Table 3 of the attached audit plan—is generally based on those courts with the greatest elapsed time since their prior audit by the council, while also considering the State Controller’s planned audits. For example, the SCO has selected Alameda, Butte, Contra Costa, Kings, and Lake for work in FY 2022-23, resulting in Audit Services delaying its audits of these courts until the subsequent year (as shown in Table 4 of the audit plan). Considering SCO’s audit schedule helps to minimize the number of audits a court will endure in a single fiscal year.

		Fiscal Year 2022-23											
		July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services													
Court Audit Team #1	Mendocino / Tuolumne												
Court Audit Team #2	Monterey / El Dorado / Marin												
State Controller's Office		<i>Audit of Trial Court Revenues, Expenditures & Fund Balance - GC 77206(h) [Alameda, Butte, Contra Costa, Kings, Lake]</i> <i>Audit of Judicial Council Revenues, Expenditures & Fund Balance (FY 21-22) - GC 77206(i)</i> <i>Trial Court Fine & Fee Revenue Distribution Audits - GC 68103 [Alameda, Calaveras, Del Norte, El Dorado, Glenn, Humboldt, Lassen, Mariposa, Mendocino, Napa, Riverside, Santa Barbara, Sierra, Solano, Sutter, Ventura]</i>											
State Auditor's Office		<i>Trial Court Procurement Audit - PCC 19210(c) [5 courts]</i> <i>ACFR - Statewide Financial Statement Audit of FY 2021-22 (all State Agencies)</i>											

Schedule of Current and Planned Audits

The table on the following page provides a listing of the audits scheduled for FY 22-23 (including those currently in progress), as well as those likely to be selected for next year's schedule. This is intended to be a tentative guide to the committee and potential notice to courts that they may be audited

Appellate / Superior Court	Date of Last Audit Report	(Current Plan) (Next Year)		Appellate / Superior Court	Date of Last Audit Report
		FY 2022-23	FY 2023-24		
32. Plumas	January-11	X		5. Calaveras	June-18
9. El Dorado	April-11	IP		47. Siskiyou	October-18
39. San Joaquin	April-11	X		34. Sacramento	December-18
49. Sonoma	April-11	X		56. Ventura	December-18
55. Tuolumne	February-12	IP		5th DCA	February-19
50. Stanislaus	April-12	IP		11. Glenn	February-19
27. Monterey	December-12	IP		4th DCA	March-19
30. Orange	December-12	IP		35. San Benito	June-19
42. Santa Barbara	November-12	IP		38. San Francisco	June-19
19. Los Angeles	February-13	X		44. Santa Cruz	June-19
1. Alameda	March-13		Y	25. Modoc	October-19
23. Mendocino	July-13	IP		53. Trinity	October-19
58. Yuba	August-13	X		18. Lassen	February-20
21. Marin	October-13	IP		41. San Mateo	February-20
20. Madera	June-14	X		46. Sierra	February-20
29. Nevada	July-14	IP		52. Tehama	February-20
17. Lake	August-14		Y	1st DCA	July-20
40. San Luis Obispo	December-14	X		2nd DCA	July-20
36. San Bernardino	January-15	X		37. San Diego	July-20
57. Yolo	February-15		Y	6th DCA	March-21
54. Tulare	July-15	X		13. Imperial	March-21
16. Kings	October-15		Y	28. Napa	March-21
12. Humboldt	December-15		Y	22. Mariposa	July-21
7. Contra Costa	February-16		Y	26. Mono	July-21
10. Fresno	June-16	X		33. Riverside	July-21
15. Kern	August-16		Y	2. Alpine	February-22
31. Placer	October-17		Y	3. Amador	February-22
24. Merced	January-18		Y	8. Del Norte	February-22
4. Butte	April-18		Y	14. Inyo	February-22
3rd DCA	May-18			43. Santa Clara	February-22
6. Colusa	June-18		Y	45. Shasta	February-22
48. Solano	June-18		Y	51. Sutter	February-22

Notes:

"IP" = In progress

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

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



**JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2022-23**



JUDICIAL COUNCIL
OF CALIFORNIA
AUDIT SERVICES

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BACKGROUND

The Audit Committee

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

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

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

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

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

Purpose of the Annual Audit Plan

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

Audit Services’ Role

Audit Services’ primary role is to establish an annual audit plan, which explains how significant risks and statutory audit requirements imposed on the judicial branch will be addressed in the coming year, and to perform audits of the Courts of Appeal and superior courts to ensure the Judicial Council’s rules and policies are followed in actual practice. An audit of a superior court often entails a review of its fiscal affairs such as, but not limited to, whether the court has: implemented certain mandatory internal controls over cash handling and has spent state-provided funding on allowable expenses for “court operations” as defined by Rule of Court, rule 10.810. Audits of the Courts of Appeal focus more heavily on procurement activity given the more limited requirements imposed on their activities by the Judicial Council and state law. Generally, audits are scheduled based on the time elapsing from the prior audit. As a result, the Courts of Appeal are not scheduled for audit in 2022-23 given the prior audit history provided in Table 4 at the end of this plan. Finally, Audit Services periodically performs internal reviews of the Judicial Council as directed by executive management and coordinates with independent, external agencies that audit the Judicial Council’s operations.

The Role of External Audit Agencies

External audit agencies, such as the State Auditor's Office (State Auditor) and the State Controller's Office (SCO), also perform recurring audits of the judicial branch as directed by statute. The statutory authorities for each external audit agency (as they currently pertain to the judicial branch) are summarized below:

State Auditor's Office – performs the following audits:

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

State Controller's Office – performs the following audits:

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

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

ANNUAL AUDIT PLAN

Risk Assessment Background

The concepts behind risk and internal controls are interrelated. Internal controls are those policies or procedures mandated by the Judicial Council, or developed by a court, designed to

achieve a specific control objective. For example, an internal control for cash handling, such as the segregation of certain conflicting duties, principally focuses on reducing the risk of theft. Internal controls respond to risks and Audit Services broadly classifies risks into the following three categories:

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

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

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

When identifying areas to include within the scope of its superior court audits, Audit Services focused on identifying compliance and reporting risks, but not operational risks. This decision

reflects Audit Services' recognition of each superior court's broad authority to operate under its own locally developed rules and strategic goals. Government Code, Section 77001 provides for each superior court's local authority by authorizing the Judicial Council to adopt rules that establish a decentralized system of trial court management. The Judicial Council's Rules of Court, rule 10.601, also emphasizes the decentralized management of superior court resources and affirms each superior court's authority to manage their day-to-day operations with sufficient flexibility. Audit Services will consider auditing operational risk areas where courts have local discretion only when asked to do so by the superior court's presiding judge or court executive officer and provided that sufficient audit staff resources are available.

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

Risk Areas, Assessed Level of Risk, and Auditing Entities

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

first place is high (e.g., cash handling). Areas of medium risk generally included those risk areas where the complexity of the requirements were low to moderate, but the reputational risk resulting from any significant audit findings would be moderate to high.

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

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

To the extent that Audit Services notes systemic and recurring issues at multiple courts, this too is considered as part of the risk-assessment process. Of the 10 audits reviewed by the audit committee in 2021-22, there was a total of 31 findings. Last year’s audit plan continued the suspension of cash from the prior FY 20-21 audit plan through September 2021, after which Audit Services resumed travel to the courts. However, due to the surge of COVID-19, Audit Services provided courts with the option of including or excluding the testing of the cash handling internal controls cited in the FIN Manual. This has historically been an area with the largest number of audit findings; however, for FY 21-22 audit reports approved by the audit committee, no cash handling related findings were noted. The most frequent categories of audit findings for FY 21-22 were payment processing-related findings (13 findings or 41.9%) such as lack of three-point match procedures, followed by procurement related findings (10 or 32.3%). Findings in other audit areas included two each for revenue distribution and fund balance, specifically non-compliance with the JCC’s policy for reporting year-end encumbrances, as well as four for JBSIS data reporting.

Table 2 – Recap of FY 21-22 Audit Findings

Areas and Sub-Areas Subject to Review		In Scope for FY 22-23?	Audit Findings from Prior Year	
			# of Findings in FY 21-22	Common Compliance Issues
Cash Handling				
1	Daily Opening Process	Yes	0	
2	Voided Transactions	Yes	0	
3	Handwritten Receipts	Yes	0	
4	Mail Payments	Yes	0	
5	Internet Payments	Yes	0	
6	Change Fund	Yes	0	
7	End-Of-Day Balancing and Closeout	Yes	0	
8	Bank Deposits	Yes	0	
9	Other Internal Controls	Yes	0	
Procurement and Contracts				
10	Procurement Initiation	Yes	3	
11	Authorization & Authority Levels	Yes	1	
12	Competitive Procurements	Yes	1	
13	Non-Competitive Procurements	Yes	3	
14	Leveraged Purchase Agreements	Yes	0	
15	Contract Terms	Yes	1	
16	Other Internal Controls	Yes	1	
Payment Processing				
17	3-Point Match Process	Yes	5	Lack of documentation, such as contracts or established payment terms, to support the three-point match process.
18	Payment Approval & Authority Levels	Yes	1	
19	Special Rules - In-Court Service Providers	Yes	7	Required information on the claims missing such as case names and numbers. Also, no support, such as agreements, contracts, or court authorizations, for payment terms.
20	Special Rules - Court Interpreters	Yes		Audit Committee suspended review pending policy change
21	Other Items of Expense	Yes	0	
22	Jury Expenses	Yes	0	
23	Allowable Costs	Yes	0	
24	Other Internal Controls	Yes	0	

Table 2 – (Continued)

Fine & Fee Distributions				
25	CMS-Calculated Distributions	Yes	2	
26	Manually-Calculated Distributions	Yes	0	
3% Fund Balance Cap				
27	Calculation of the 3% Cap	Yes	2	
28	Use of "Held on Behalf" Funds	Yes	0	
JBSIS Case Filing Data				
29	Validity of JBSIS Data	Yes	4	Variance of over 2% for individual case types.
Grants				
30	AB 1058 Grants	Yes	0	
Collections				
30	Enhanced Collections	Yes	0	
Other Areas				
31	[None]	No	0	

In Audit Services’ view, payment processing continues to be a high-risk area given the courts do not consistently follow the FIN Manual’s “three-point match” process to ensure each vendor’s invoice agreed with the terms/conditions of the contract and the receiving document prior to issuing payment to a vendor, thus the vendor payment process continues to be a focus in the audit plan. Courts also did not consistently follow the FIN Manual’s requirements for ensuring In-Court Service Provider claims include information such as case names and numbers, dates of services, and claimant addresses and signatures. Additionally, Courts do not always retain support, such as contracts, agreements, or court authorizations, for the rates paid to claimants. Finally, we believe JBSIS reporting continues to be an inherently high-risk process given: (1) the complexity of the rules defining reported data elements; (2) the fact courts must configure their various Case Management Systems (CMS)—at times with 3rd party help— to adhere to changing reporting requirements and/or case type definitions; and (3) several of the Judicial Council’s key business decisions are based on JBSIS filings data (i.e. trial court budget allocations and the branch’s judicial needs assessment).

Audit Scope and Adjustments for Fiscal Year 2022-23

Additions, deletions, and modifications to the audit plan for FY 22-23 are described below.

- ***Resume testing of cash handling controls:*** Audit Services will resume travel to all courts at the beginning of FY 22-23, which will include the testing of the cash handling internal controls cited in the FIN Manual. Although the FY 21-22 audit plan stated travel would

resume after September 2021, due to the surge of COVID-19, Audit Services provided courts with the option of including or excluding the testing of the cash handling internal controls for FY 21-22. This has historically been an area with the largest number of audit findings.

- ***Remove AB 1058 grants testing*** – In the FY 21-22 audit plan, Audit Services classified both the reporting risk and the compliance risk in this area as low. Additionally, there were no audit findings in this area in either FY 20-21 or in FY 21-22. Therefore, Audit Services proposes removing AB 1058 grants testing from its audit scope. Audit Services discussed this change with council staff at the Center for Families, Children & the Courts (CFCC) and they had no objections.

Available Staff Resources and Audit Scheduling

Audit Services has two audit teams assigned to court audit work. Staffing currently consists of 2 team leaders and 6 audit staff (total of 8 auditors). On an as needed basis, audit staff are pulled to support other projects focusing on the Judicial Council’s internal operations. Based on the available staff resources shown in Table 3 below, Audit Services estimates that it has 11,992 available hours for audit activities in fiscal year 2022-23, which includes roughly 1,499 hours the *Internal Review Team* has reserved for internal reviews. Staff from the internal review team will work on trial court audits as time permits.

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

Table 3 – Anticipated Audit Schedule (Fiscal Year 2022-23)

	Fiscal Year 2022-23												
	July	August	September	October	November	December	January	February	March	April	May	June	Total
Monthly Working Days	21	23	22	21	22	22	22	20	23	20	23	22	261
Available Monthly Hours	168	184	176	168	176	176	176	160	184	160	184	176	2,088
Judicial Branch Holidays	(8)	-	(16)	-	(24)	(8)	(16)	(16)	(8)	-	(8)	-	(104)
Estimated Personal Leave	(16)	(16)	(16)	(16)	(40)	(32)	(16)	(16)	(8)	(16)	(16)	(16)	(224)
Available Hours Per Auditor	144	168	144	152	112	136	144	128	168	144	160	160	1,760
Administrative Time	(2)	(3)	(2)	(3)	(2)	(2)	(3)	(2)	(3)	(2)	(3)	(2)	(29)
Training	(8)	-	-	(8)	-	(8)	(8)	-	-	(8)	-	-	(40)
Travel (Two Round Trips / Month)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(192)
Non-Audit Hours	(26)	(19)	(18)	(27)	(18)	(26)	(27)	(18)	(19)	(26)	(19)	(18)	(261)
Available Audit Hours Per Auditor	118	149	126	125	94	110	117	110	149	118	141	142	1,499
# of Audit Staff	8	8	8	8	8	8	8	8	8	8	8	8	8
Total Available Audit Hours	944	1,192	1,008	1,000	752	880	936	880	1,192	944	1,128	1,136	11,992
Court Audit Team #1	413	522	441	438	329	385	410	385	522	413	494	497	5,247
Court Audit Team #2	413	522	441	438	329	385	410	385	522	413	494	497	5,247
Internal Review Team	118	149	126	125	94	110	117	110	149	118	141	142	1,499

	Fiscal Year 2022-23											
	July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services												
Court Audit Team #1	Mendocino / Tuolumne		San Joaquin				San Bernardino			Tulare		
	San Luis Obispo				Madera				Plumas			
Court Audit Team #2	Monterey / El Dorado / Marin			Los Angeles				Yuba		Fresno		
	Los Angeles						Sonoma					

State Controller's Office	Audit of Trial Court Revenues, Expenditures & Fund Balance - GC 77206(h) [Alameda, Butte, Contra Costa, Kings, Lake]											
							Audit of Judicial Council Revenues, Expenditures & Fund Balance (FY 21-22) - GC 77206(i)					
	Trial Court Fine & Fee Revenue Distribution Audits - GC 68103 [Alameda, Calaveras, Del Norte, El Dorado, Glenn, Humboldt, Lassen, Mariposa, Mendocino, Napa, Riverside, Santa Barbara, Sierra, Solano, Sutter, Ventura]											

State Auditor's Office	Trial Court Procurement Audit - PCC 19210(c) [5 courts]											
	ACFR - Statewide Financial Statement Audit of FY 2021-22 (all State Agencies)											

Note: Scheduled audits by council staff are based on estimated available hours and are subject to change depending on: (1) each court's availability; (2) Audit Services' resources; and (3) changing audit priorities based on risk. The audit committee may also reprioritize audits and modify the audit schedule as it deems necessary.

Schedule of Future Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year’s annual audit plan. Table 4 shows all 6 appellate courts and 58 superior courts, ranked by the time elapsing since its previous audit. Elapsed time will always be a significant consideration for Audit Services when scheduling audits. To minimize the risk of a single court being audited by multiple entities during the same year, audit scheduling is also influenced by—and to the extent possible coordinated with—the work of external audit organizations.

Table 4 –Audit Services’ Previous and Planned Appellate and Superior Court Audits (Current Year and Anticipated Next Year)

Appellate / Superior Court	Date of Last Audit Report	(Current Plan) (Next Year)		Appellate / Superior Court	Date of Last Audit Report
		FY 2022-23	FY 2023-24		
32. Plumas	January-11	X		5. Calaveras	June-18
9. El Dorado	April-11	IP		47. Siskiyou	October-18
39. San Joaquin	April-11	X		34. Sacramento	December-18
49. Sonoma	April-11	X		56. Ventura	December-18
55. Tuolumne	February-12	IP		5th DCA	February-19
50. Stanislaus	April-12	IP		11. Glenn	February-19
27. Monterey	December-12	IP		4th DCA	March-19
30. Orange	December-12	IP		35. San Benito	June-19
42. Santa Barbara	November-12	IP		38. San Francisco	June-19
19. Los Angeles	February-13	X		44. Santa Cruz	June-19
1. Alameda	March-13		Y	25. Modoc	October-19
23. Mendocino	July-13	IP		53. Trinity	October-19
58. Yuba	August-13	X		18. Lassen	February-20
21. Marin	October-13	IP		41. San Mateo	February-20
20. Madera	June-14	X		46. Sierra	February-20
29. Nevada	July-14	IP		52. Tehama	February-20
17. Lake	August-14		Y	1st DCA	July-20
40. San Luis Obispo	December-14	X		2nd DCA	July-20
36. San Bernardino	January-15	X		37. San Diego	July-20
57. Yolo	February-15		Y	6th DCA	March-21
54. Tulare	July-15	X		13. Imperial	March-21
16. Kings	October-15		Y	28. Napa	March-21
12. Humboldt	December-15		Y	22. Mariposa	July-21
7. Contra Costa	February-16		Y	26. Mono	July-21
10. Fresno	June-16	X		33. Riverside	July-21
15. Kern	August-16		Y	2. Alpine	February-22
31. Placer	October-17		Y	3. Amador	February-22
24. Merced	January-18		Y	8. Del Norte	February-22
4. Butte	April-18		Y	14. Inyo	February-22
3rd DCA	May-18			43. Santa Clara	February-22
6. Colusa	June-18		Y	45. Shasta	February-22
48. Solano	June-18		Y	51. Sutter	February-22

Notes:

"IP" = In progress

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

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



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 06/29/2022

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 Colusa Superior Court.

Supporting Documents:

- ***Attachment B***—Audit report of Colusa 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 Colusa Superior Court (Court) substantially 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 five audit findings, as summarized below:

Revenue Accounting Errors – The audit identified two instances when the Court misclassified reimbursements pertaining to the prior year as current year reimbursements. Each error was relatively modest (\$495 and \$3,084) and should have been recorded under the Prior-Year Revenue Adjustment account in the general ledger. The audit also identified a duplicate revenue accrual entry at year end (in the amount of \$2,643).

Contract Commissioner Pay Rate – The Court shares a commissioner with other courts and the amount billed to the Court could not be substantiated. Specifically, the contract does not specify an hourly pay rate and the invoices do not allow the Court to determine whether the amounts billed are excessive. The SCO recommends the commissioner contract include a documented hourly rate.

Timesheet Approval – The SCO audit identified an instance where a subordinate approved his or her boss' timesheet.

Missing Personnel Record – The Court could not locate a personnel record for one employee that would indicate whether paid benefit amounts were correct.

Vendor Payment Error – The SCO audit identified one instance where the Court underpaid a contract court interpreter (paying for one-half of a day instead of the full day). The SCO also noted discrepancies with the amount of mileage paid to the interpreter, recommending that court staff validate claimed mileage before processing the claim for payment.

Staff recommend the committee approve the audit for public posting.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF COLUSA

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

March 2022



BETTY T. YEE
California State Controller

March 11, 2022

Erika Valencia, Court Executive Officer
Superior Court of California, County of Colusa
532 Oak Street
Colusa, CA 95932

Dear Ms. Valencia:

The State Controller's Office audited the Superior Court of California, County of Colusa (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 one incorrectly paid interpreter claim and certain revenues that were not reported correctly for the fiscal year in which they were earned. Additionally, we noted internal control weaknesses pertaining to the preparation and/or maintenance of supporting documents and to timesheet approvals. These issues are described in the Findings and Recommendations section of our report.

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

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/lis

cc: Cynthia Otero, Court Fiscal Officer
Superior Court of California, County of Colusa
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 Colusa (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 one incorrectly paid interpreter claim and certain revenues that were not reported correctly for the fiscal year in which they were earned. Additionally, we noted internal control weaknesses pertaining to the preparation and/or maintenance of supporting documents and to timesheet approvals. These issues are described in the Findings and Recommendations section of our report.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, established through Article IV of the 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 rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual* (FIN 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, California Rules of Court 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 are the core 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 reported revenues of \$2,313,796. The Court receives the majority of its revenue from state financing sources. The Trial Court Trust Fund provided 80.8% of the Court's revenue. For the audit period, the Court incurred expenditures of \$2,150,717. Personal services (salaries and benefits) comprised 60.1% of total expenditures. The Court employed 23 staff members to serve Colusa County's population of approximately 22,030 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 each 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. Audit authority is provided by Interagency Agreement Number 58163, dated January 6, 2020, between the SCO and the JCC; and by GC section 77206(h).

**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 JCC's FIN 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 with 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 two of the Court's 14 monthly Trial Court Trust Fund revenue distributions and 37 expenditure items to evaluate key internal controls over transactions recorded in the Court's significant operating funds and related fund accounts. Errors found were not projected to the intended (total) population.

Revenue Testing

- We designed our revenue testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting.

- We tested revenue transactions and account balances in the General Fund, Non-Grant Special Revenue Fund, and Grant Special 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, Improvement and Modernization Fund, Court Interpreter, and MOU Reimbursements accounts were material. We tested these accounts through combined sampling, analytical procedures, inquiries, and review of source documents.
- We tested \$2,089,341 of \$2,313,796, or 90.3% of total revenues.

We found errors in the balances of two accounts that resulted from incorrectly recorded year-end revenue accruals, and from other unadjusted differences between revenues earned and accrued in the prior year and remittances received in the current year. The total amount (net) of error is \$4,661, which reflects only a minor cumulative effect of approximately 0.2 % on the Court's overall reported total revenue.

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

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to 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 four bi-monthly pay periods occurring in the months of September 2019 and April 2020, and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected five of 23 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 \$7,333;
 - Sample-tested an additional 23 transactions from the remaining population;
 - Used a sample of 37 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 \$315,138 of \$2,125,877, or 14.8% of total expenditures.

The test results revealed internal control weaknesses over timesheet approvals for the Court Executive Officer, and inadequate documentation to substantiate purchases and employee health benefit elections. We also identified an underpayment on a court interpreter claim.

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

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.

For the funds tested, we noted that the General Fund balance was overstated by \$2,484 as of June 30, 2020, because of accounting entry and payment errors. Details of our findings are provided in the Findings and Recommendations section of this report. Schedule 3—Summary of Fund Balances and Fund Balance Test Results presents, by fund, the total balances, changes in fund balances, and error amounts noted.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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 one incorrectly paid interpreter claim and certain revenues that were not reported correctly for the fiscal year in which they were earned. Additionally, we noted internal control weaknesses pertaining to the preparation and/or maintenance of supporting documents and to timesheet approvals. These issues are described in the Findings and Recommendations section of our report.

**Follow-up on
Prior Audit
Findings**

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report.

**Views of
Responsible
Officials**

We issued a draft audit report on December 14, 2021. The Court's representative responded by letter dated December 23, 2021, agreeing with the audit results. This final audit report includes the Court's response as an Attachment.

Restricted Use

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

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

March 11, 2022

**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>		<u>Errors</u> ²
	Totals	Percentage	Amounts	Percentage	Amount
<u>State Financing Sources</u>					
Trial Court Trust Fund ^{3,4}	\$ 1,869,960	80.8%	\$ 1,869,960	80.8%	\$ -
Improvement and Modernization Fund	2,643	0.1%	2,643	0.1%	2,643
Judges' Compensation	-	0.0%	-	0.0%	-
Court Interpreter ³	100,212	4.3%	100,212	4.3%	-
Civil Coordination Reimbursement	-	0.0%	-	0.0%	-
MOU Reimbursements ^{3,4}	116,526	5.0%	116,526	5.0%	3,579
Other Miscellaneous ³	24,773	1.1%	-	0.0%	-
Subtotal	2,114,114		2,089,341		6,222
<u>Grants</u>					
AB 1058 Commissioner/Facilitator ^{2,3,4}	60,213	2.6%	-	0.0%	-
Other Judicial Council Grants	2,432	0.1%	-	0.0%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	62,645		-		-
<u>Other Financing Sources</u>					
Interest Income	25,516	1.1%	-	0.0%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	-	0.0%	-	0.0%	-
Local Fees	19,230	0.8%	-	0.0%	-
Non-Fee Revenues	-	0.0%	-	0.0%	-
Enhanced Collections ^{3,4}	92,199	4.0%	-	0.0%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	-	0.0%	-	0.0%	(3,579)
County Program – Restricted	-	0.0%	-	0.0%	-
Reimbursement Other	-	0.0%	-	0.0%	-
Sale of Fixed Assets	-	0.0%	-	0.0%	-
Other Miscellaneous	92	0.0%	-	0.0%	-
Subtotal	137,037		-		(3,579)
Total Revenues	<u>\$ 2,313,796</u>	100.0%	<u>\$ 2,089,341</u>	90.3%	<u>\$ 2,643</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 Accounts¹</u>	<u>Expenditures Reported</u>		<u>Expenditures Tested</u>		<u>Errors²</u>
	Totals	Percentage	Amount	Percentage	Amount
<u>Payroll</u>					
Salaries – Permanent ^{3,4}	\$ 805,594	37.9%	\$ 39,594	1.9%	\$ -
Temporary Help ³	-	0.0%	-	0.0%	-
Overtime	-	0.0%	-	0.0%	-
Staff Benefits ^{3,4}	487,844	22.9%	31,613	1.5%	-
Subtotal	1,293,439		71,208		-
<u>Operating Expenses and Equipment</u>					
General Expense ^{3,4}	80,245	3.8%	-	0.0%	-
Printing	-	0.0%	-	0.0%	-
Telecommunications	22,980	1.1%	-	0.0%	-
Postage	15,078	0.7%	-	0.0%	-
Insurance	703	0.0%	-	0.0%	-
In-State Travel	1,245	0.1%	-	0.0%	-
Out of State Travel	-	0.0%	-	0.0%	-
Training	3,483	0.2%	-	0.0%	-
Security Services	10,258	0.5%	-	0.0%	-
Facility Operations	38,178	1.8%	-	0.0%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services ^{3,4}	452,608	21.3%	121,739	5.7%	(159)
Consulting and Professional Services	3,106	0.1%	-	0.0%	-
Information Technology	194,105	9.1%	122,192	5.7%	-
Major Equipment	32,676	1.5%	-	0.0%	-
Other Items of Expense	349	0.0%	-	0.0%	-
Subtotal	855,014		243,930		(159)
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	2,264	0.1%	-	0.0%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense	(24,840)	-1.2%	-	0.0%	-
Subtotal	(22,576)		-		-
Total Expenditures	<u>\$ 2,125,877</u>	100.0%	<u>\$ 315,138</u>	14.8%	<u>\$ (159)</u>

¹ Differences due to rounding

² Revenues over/(under) stated; see Finding 5

³ Tested account internal controls

⁴ Material account

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

Balance ¹	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Fiduciary Fund	Total
Beginning Balance	\$ 533,473	\$ 211,031	\$ -	\$ 53,152	\$ 797,657
Revenues	2,139,931	110,054	62,645	1,166	2,313,796
Expenditures	(1,971,033)	(92,199)	(62,645)	-	(2,125,877)
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Ending Balance	<u>\$ 702,372</u>	<u>\$ 228,887</u>	<u>\$ -</u>	<u>\$ 54,318</u>	<u>\$ 985,576</u>
Errors Noted ²					
Revenues over/(under) stated; see Finding 1	\$ 2,643	\$ -	\$ -	\$ -	\$ 2,643
Expenditures over/(under) stated; see Finding 5	(159)	-	-	-	(159)
Total	<u>\$ 2,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,484</u>

¹ Differences due to rounding

² Classification errors in Finding 1 did not affect fund balances

Findings and Recommendations

FINDING 1— Revenue accounting errors

During our review of revenue account transactions, we identified three accounting errors. Although the errors are disclosed in this report, they have only a minor effect on overall financial reporting.

In two instances, prior-year reimbursements for the Trial Court Trust Fund (TCTF) were misclassified as current-year operating reimbursements:

- General Ledger Account Number 832011 (TCTF – Jury) – The Court received and recorded a prior-year (FY 2018-19) reimbursement for \$495 in its current-year operating reimbursement account. The claim for reimbursement was not accrued at the end of the prior year.
- General Ledger Account Number 832012 (TCTF – Court Appointed Counsel) – The Court received and recorded a prior-year (FY 2018-19) reimbursement for \$3,084 in its current-year reimbursement account. The claim for reimbursement was not accrued at the end of the prior year.

In each of these instances, the correct procedure is to record these reimbursements in General Ledger Account Number 899910 (Prior-Year Revenue Adjustment). For financial accounting and reporting, reimbursements are included with revenue. This account is used to reclassify prior-year revenues that were received in the current year, but not accrued in the prior year.

In the third instance, a duplicate accrual was posted to an incorrect account. The Court appropriately recorded an accrual of \$2,643 at year-end in the correct account (General Ledger Account Number 832010, TCTF – MOU Reimbursements). However, a duplicate entry for the accrual was also entered in General Ledger Account Number 837011 (TCTF – State Trial Court Improvement and Modernization Fund). As a result, the State Financing Sources total reported in the Court's FY 2019-20 financial statements was overstated by \$2,643.

The Trial Court Chart of Accounts includes General Ledger Account Number 899910 (Prior-Year Revenue Adjustment) to record adjustments for accrual-related accounting differences that occur between fiscal years. The Prior-Year Adjustment account adjusts current year operating results and improves the accuracy of financial and budgetary reporting. Failure to adjust accounts may lead to financial misstatement.

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 the Court was 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 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 fiscal year.

California Rules of Court 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 JCC’s FIN Manual (10th edition, June 2019) states:

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

Recommendation

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

**FINDING 2—
Commissioner pay
rate not
substantiated**

For our test of non-payroll expenditures, we selected a sample of 37 disbursement transactions to review, which included a transaction for Child Support Commissioner Services. We found that the Court was unable to substantiate the calculated rate of pay for invoiced Child Support Commissioner Services, which are provided pursuant to a four-court Intra-Branch Agreement (IBA).

The IBA specifies a compensation for 85% of a judge’s salary, in addition to taxes, benefits, and a travel allowance. Invoices are supported with activity logs and timesheets showing days and hours, by pay period. Neither the invoice, the supporting documentation, nor the IBA stipulate an hourly pay rate. We could not determine whether the rate charged was

calculated correctly or whether the amount is excessive. We estimated a rate of \$274 per hour, for 37.5 hours, charged to the court. Court staff indicated that invoiced amounts are not verified, and that the Court assumes that billing calculations produced by the coordinating lead court are correct.

The current guidance for contracts between Judicial Branch Entities (JBEs) is to establish clear pricing terms and unit-based labor rates.

Section 8.3, sub-section A2, "Pricing and payment," of the *Judicial Branch Contracting Manual* (revised August 1, 2018) states, in part:

The price the JBE will pay for goods and services under a contract must be clearly stated. The contract should clearly specify the basis for compensation and the terms of payment, such as: lump sum (one-time payment), firm fixed price, unit price, labor rate, or other specific basis....

- If a JBE is contracting for labor, a schedule listing the hourly, daily, weekly, or monthly cost for each person or job classification must be incorporated into the contract.

Recommendation

We recommend that the Court:

- Specify unit pricing details and hourly rates of pay in its IBAs to ensure that costs and terms are fully documented and verifiable; and
- Consider attaching additional documentation of unit pricing and pay rates for IBAs currently being used that do not provide this information.

FINDING 3— Inappropriate timesheet approval

In our test of the Court's payroll accounting, we selected a sample of five out of 23 employee timesheets to verify approval and time keeping. We found that the Court Executive Officer's electronic timesheet was approved by the subordinate Court Financial Officer. However, the Court Executive Officer's timesheets should be approved by the Presiding Judge.

Policy Number FIN 1.03, section 6.3.3, sub-section 5, "Proper Authorization and Documentation," of the JCC's FIN Manual states:

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

Recommendation

We recommend that the Court enforce a hierarchy for timesheet approval to ensure that the Presiding Judge exercises supervisory oversight and authority for the Court Executive Officer's attendance reporting.

**FINDING 4—
Personnel record
not available**

During our review of payroll expenditures and related internal controls, we verified the calculations, payments, and accounting for a sample of five out of 23 employee benefit transactions. For one employee in our sample, the Court was unable to substantiate a waiver of health benefits.

Each employee and Court Health Benefit Officer prepares and signs a Health Benefits Plan Enrollment for Active Employees (HBD-12) form. Eligible public employees use this form to enroll in, modify, or decline coverage by an employer's health benefit plan.

Although the Court provided HBD-12 forms for other sampled employees, it did not have an HBD-12 form for this sampled employee in its personnel files. Therefore, we were unable to verify the waiver of health benefits.

GC section 71660 requires that trial courts maintain personnel files. Paragraph (b) of GC section 71660 states:

Each trial court shall keep a copy of each employee's official personnel files at the place where the employee reports to work, or shall make the official personnel files available where the employee reports to work within a reasonable period of time after a request for the official personnel files by the employee.

Recommendation

We recommend that the Court:

- Obtain a copy of the signed HBD-12 form for the identified employee, and add it to the employee's personnel file; and
- Use suitable procedures, such as checklists or periodic file audits, to ensure that all necessary and required documents (or copies thereof) are retained in each employee's file. Doing so aids in protecting both the organization and the employee.

**FINDING 5—
Claimant payment
error**

During our review of disbursements for court interpreter services, we selected a sample of 37 transactions and noted a discrepancy between the claimed amount and the supporting Daily Activity Log for one employee. The Daily Activity Log provides case references and is marked for a full day of service. However, the claim and corresponding disbursement was for only a half-day (per diem) of \$226. On inquiry, the Court acknowledged having incorrectly paid only a half-day and that it should have paid a full day. The Short Form Agreement for Interpreting Services (Agreement) between the interpreter and the Court indicates "Excessive" half-day and full-day pay rates of \$226 and \$418, respectively.

In response to this matter, the Court processed a claim to pay the interpreter the difference due of \$192. A copy of the claim, dated June 30, 2021, was provided for our audit records.

We also noted a discrepancy in mileage paid on the claim. The Agreement was pre-typed with a mileage claim of 298 miles. With the address indicated in the claim, using Map Quest we calculated a 240-mile round-trip distance, which is 58 miles fewer than the claimed mileage. We were informed that once mileage is established in an Agreement, it continues to be used in subsequent claims.

Policy Number FIN 8.01, section 6.3.3, "Review for Accuracy of Invoice," Item 1 of the JCC's FIN Manual states:

Calculations and price extensions shown on the invoices shall be audited to ensure their accuracy.

Policy Number FIN 8.02, section 6.8, "Reconciliation of Claims," of the JCC's FIN Manual states:

After the accounts payable department has received and recorded a claim, it must be reconciled to the court authorization for the services provided and the service provider's invoice. The claim should be reviewed against the court authorization to verify the appointment, rates, and any hour or dollar limits that may apply. The invoice should be reviewed against the court authorization for the rates and hours charged, and other costs incurred. The correctness of unit price extensions and totals should also be reviewed. Previous claims for the same matter should also be reviewed to assure that limits are not exceeded.

Recommendation

We recommend that the Court:

- Prepare claims to include evidence that mileage has been verified for accuracy and to identify address changes; and
- Update the vendor master file when address changes occur.

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



Superior Court of California County of Colusa

JEFFREY A. THOMPSON
PRESIDING JUDGE

ELIZABETH UFKES OLIVERA
ASSISTANT PRESIDING JUDGE

532 Oak Street
Colusa, CA 95932

PHONE: 530-458-5149
FAX: 530-458-2230

ERIKA F. VALENCIA
COURT EXECUTIVE OFFICER
CLERK OF THE COURT
JURY COMMISSIONER

December 23, 2021

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

Re: Audit of the Superior Court, County of Colusa

Dear Mr. James:

We are in receipt of the draft audit report from your office. We appreciate the thorough report and respond to the findings below.

Finding 1: Revenue Accounting Errors

The court agrees with the finding. The court will implement accounting procedures to ensure accounts are adjusted for prior-year transactions, and accrual differences, according to the JCC's accounting guidance.

Finding 2: Commissioner Pay Rate Not Substantiated

The court agrees with the finding. The Commissioner is a shared position with Tehama Superior Court being the lead court. The court will contact Tehama Court to request copies of pay stubs be included with billings to the Court so that hourly pay rate can be verified.

Finding 3: Inappropriate Timesheet Approval

The court agrees with and has rectified the finding. As of pay period 15, the Presiding Judge approves the Court Executive Officer's timesheet. The court has implemented the following

procedure: The Court Executive Officer prepares the timesheet, the Chief Financial Officer submits the timesheet to the Presiding Judge for approval and signature, and then the Chief Financial Officer approves the timesheet in SAP.

Finding 4: Personnel Record Not Available

The court agrees with the finding. The part-time employee for whom the record was needed, is no longer employed by the court. Therefore, the court is not able to obtain an HBD-12 form to rectify the finding. However, the court believes this was a one-time oversight as it is procedure to obtain proper documentation for all employees.

Finding 5: Claimant Payment Error

The court agrees with the finding. The Short Form Agreement for Interpreting Services is completed by the Interpreter for each service to the court. The court uses Map Quest to obtain the roundtrip mileage to the court at the interpreter's first service to the court. The interpreter signs the form certifying and agreeing to terms and conditions, including the accuracy of their address and mileage. When the interpreter updates an address with the interpreter coordinator, a new Map Quest is obtained and all records are updated.

We look forward to receiving the final report and implementing all necessary corrections. If any additional information is required, please do not hesitate to contact the undersigned.

Sincerely,



Erika F. Valencia
Court Executive Officer

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

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



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 06/29/2022

Action Item #3 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

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

Supporting Documents:

- ***Attachment C***—Audit report of Madera 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 Colusa Superior Court (Court) substantially 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 five audit findings, as summarized below:

Revenue Accounting Errors – The audit identified various instances where the Court received revenue that pertained to the prior year (and was not accrued) and was recorded as current year revenue when received. The SCO’s finding points out the need for Courts to use the Prior Year Revenue Adjustment Account (GL 899910).

Expenditure Accounting Errors – The audit identified a transaction of roughly \$141K that pertained to a prior year that was recorded as a current year expense. Since the prior

year expense wasn't accrued at the previous year-end, the Court should have used the Prior Year Expenditure Adjustment account (GL 999910).

Missing Vendor Contracts – The audit team could not locate contracts pertaining to psychological and psychiatric evaluation charges. Although the audit team found that the charges were appropriate and could be traced back to specific cases and court authorizations, the audit team recommended the Court develop a formalized process through its local contracting manual to address authorizing and compensating vendors in the absence of a contract.

Employee Benefits & Payroll – The Court could not provide benefit election forms signed by its employees for 2 of the 9 sample items tested. However, the Court was able to provide other records to substantiate the employee benefit charges. The Court should maintain benefit election forms to minimize the risk of dispute or error in charging for benefit amounts. The audit team also noted instances where the Court charged the salary expenses for temporary help to the GL account for permanent employees (instead of using the GL account for temporary help). The Court's temporary help employees are not a significant component of its overall salaries and benefits charges.

Staff recommends the committee approve the audit for public posting.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF MADERA

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

May 2022



BETTY T. YEE
California State Controller

May 17, 2022

Adrienne Calip, Court Executive Officer
Superior Court of California, County of Madera
200 South G Street
Madera, CA 93637

Dear Ms. Calip:

The State Controller's Office audited the Superior Court of California, County of Madera (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, we also identified instances of accounting errors and internal control deficiencies that are not significant to the audit objectives, but warrants the attention of management.

Specifically, we found errors in account balances that resulted from the Court omitting reclassification adjustments in its revenue accounts to properly present current and prior year operating results for financial reporting. We also found internal control deficiencies related to missing documentation. The Court was not able to provide written agreements for independent contractors providing mental health evaluation services and was missing two employee-signed health benefits election forms. Details of our findings are described in the Findings and Recommendations section of this report.

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

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Staci Martines, Interim Chief Financial Officer
Superior Court of California, County of Madera
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 Madera (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 revenues, expenditures, and fund balances. However, we also identified instances of accounting errors and internal control deficiencies that are not significant to the audit objectives, but warrants the attention of management.

Specifically, we found errors in account balances that resulted from the Court omitting reclassification adjustments in its revenue accounts to properly present current and prior year operating results for financial reporting. We also found internal control deficiencies related to missing documentation. The Court was not able to provide written agreements for independent contractors providing mental health evaluation services and was missing two employee-signed health benefits election forms. Details of our findings are described in the Findings and Recommendations section of this 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* (FIN Manual), which provides guidance and directives for trial court fiscal management. The FIN Manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. It also 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 are the core subject matter of our audit.

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates monies in the TCTF to trial courts. The TCTF'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 reported revenues of \$11,495,185. The Court receives the majority of its revenue from state financing sources. The TCTF provided 76.2% of the Court's revenue. During the audit period, the Court incurred expenditures of \$11,623,215. Payroll-related expenditures (salaries and benefits) comprised 77.9% of total expenditures. The Court employed 102 staff members to serve Madera County's population of approximately 158,350 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. Audit authority is provided by Interagency Agreement Number 58163, dated January 6, 2020, between the SCO and the JCC, and by 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 JCC's FIN 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 with 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 non-statistical sampling, we selected 13 revenue items and 33 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the impact of the identified errors. Errors were not projected to the intended (total) population.

Revenue Testing

- We designed our revenue 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.
- We tested revenue transactions and account balances in the General Fund and the Non-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 TCTF and MOU [memorandum of understanding] Reimbursements accounts were material. We expanded our testing to include the Improvement and Modernization Fund, Court Interpreter, and Other Miscellaneous revenue accounts. We tested the accounts through combined sampling and analytical procedures.
- We tested \$10,670,000 of \$11,495,185, or 92.8% of total revenues.

We identified 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 dollar amount of the error is \$101,805.

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

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to 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. Material accounts included payroll-related (salaries and benefits) accounts and non-payroll (contracted services and information technology) accounts.
- To test payroll-related expenditure accounts, we selected two pay periods (one month each) occurring in September 2019 and April 2020, and reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger (GL). We further selected nine of 102 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 expenditure accounts, we:
 - Selected a sample of 24 expenditure transactions to test key internal controls and the accuracy of recorded transactions;
 - Included in the sample all individually significant (material) transactions that exceeded \$25,000; and
 - Vouched expenditures recorded in the general ledger to supporting documents.
- We tested \$1,488,192 of \$11,623,215, or 12.8% of total expenditures.

We found that some prior-year expenditures were recorded incorrectly in the current-year operating accounts. The total amount of error is \$101,194.

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

Fund Balance Testing

- We judgmentally selected the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund, as these funds had revenue and expenditure accounts with significant balances.
- 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 Schedules 1 and 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2020, were accurate and in compliance with applicable criteria.

For the funds tested, we noted that the General Fund balance was understated by \$202,999 as of June 30, 2020, because the Court did not record revenues and expenditures accurately in its accounting records. Details of our findings are provided in the Findings and Recommendations section of this report.

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

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

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, we also identified instances of accounting errors and internal control deficiencies that are not significant to the audit objectives, but warrants the attention of management.

Specifically, we found errors in account balances that resulted from the Court omitting reclassification adjustments in its revenue accounts to properly present current and prior year operating results for financial reporting. We also found internal control deficiencies related to missing documentation. The Court was not able to provide written agreements for independent contractors providing mental health evaluation services and was missing two employee-signed health benefits election forms. Details of our findings are described in the Findings and Recommendations section of this report.

Follow-up on Prior Audit Findings

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC's Internal Audit Services, which issued a report in June 2014. We did not include any follow-up to matters presented in the JCC's prior report in our audit.

Views of Responsible Officials

We issued a draft audit report on April 1, 2022. The Court responded by letter dated April 4, 2022, agreeing with the audit results. This final audit report includes the Court's response as an attachment.

Restricted Use

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

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

May 17, 2022

**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>		<u>Error</u>
	<u>Totals</u>	<u>Percentage</u>	<u>Amounts</u>	<u>Percentage</u>	<u>Amount</u> ³
<u>State Financing Sources</u>					
Trial Court Trust Fund ^{1,2}	\$ 8,763,847	76.2%	\$ 8,763,847	100.0%	\$ -
Improvement and Modernization Fund ³	105,551	0.9%	19,797	18.8%	(203,168)
Court Interpreter ^{2,3}	443,699	3.9%	443,699	100.0%	(52,755)
MOU Reimbursements ^{1,2,3}	1,089,397	9.5%	1,057,832	97.1%	126,235
Other Miscellaneous ²	384,825	3.3%	384,825	100.0%	-
Subtotal	10,787,319		10,670,000		(129,688)
<u>Grants</u>					
AB 1058 Commissioner/Facilitator	388,251	3.4%	-	0.0%	-
Other Judicial Council Grants	32,794	0.3%	-	0.0%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	421,045		-		-
<u>Other Financing Sources</u>					
Interest Income	50,945	0.4%	-	0.0%	-
Local Fees	142,104	1.2%	-	0.0%	-
Non-Fee Revenues	-	0.0%	-	0.0%	-
Enhanced Collections	-	0.0%	-	0.0%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	-	0.0%	-	0.0%	27,883
County Program - Restricted	14,605	0.1%	-	0.0%	-
Sale of Fixed Assets	2,000	0.0%	-	0.0%	-
Reimbursement Other	76,302	0.7%	-	0.0%	-
Other Miscellaneous	864	0.0%	-	0.0%	-
Subtotal	286,821		-		27,883
Total Revenues	<u>\$ 11,495,185</u>	100.0%	<u>\$ 10,670,000</u>	92.8%	<u>\$ (101,805)</u>

¹ Material account

² Tested account internal controls

³ Revenues over/(under)-stated; see Finding 1

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>		<u>Error</u>
	<u>Totals</u>	<u>Percentage</u>	<u>Amounts</u>	<u>Percentage</u>	<u>Amount</u> ³
<u>Personal Services</u>					
Salaries – Permanent ^{1,2}	\$ 5,809,745	50.0%	\$ 91,064	1.6%	\$ 1,004
Temporary Help	-	0.0%	-	0.0%	(1,004)
Overtime	3,914	0.0%	651	16.6%	-
Staff Benefits ^{1,2}	3,246,115	27.9%	26,720	0.8%	-
Subtotal	9,059,775		118,436		-
<u>Operating Expenses and Equipment</u>					
General Expense	255,405	2.2%	-	0.0%	-
Printing	30,134	0.3%	-	0.0%	-
Telecommunications	39,433	0.3%	-	0.0%	-
Postage	53,147	0.5%	-	0.0%	-
Insurance	7,901	0.1%	-	0.0%	-
In-State Travel	4,480	0.0%	-	0.0%	-
Out of State Travel	-	0.0%	-	0.0%	-
Training	4,208	0.0%	-	0.0%	-
Security Services	337,270	2.9%	-	0.0%	-
Facility Operations	38,823	0.3%	-	0.0%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services ^{1,2}	1,109,796	9.5%	876,153	78.9%	141,065
Consulting and Professional Services	4,225	0.0%	-	0.0%	-
Information Technology ^{1,2}	627,036	5.4%	493,603	78.7%	(101,194)
Major Equipment	5,648	0.0%	-	0.0%	-
Other Items of Expense	16	0.0%	-	0.0%	-
Subtotal	2,517,522		1,369,756		39,871
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	45,918	0.4%	-	0.0%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	0	0.0%	-	0.0%	-
Prior Year Expense	-	0.0%	-	0.0%	(141,065)
Subtotal	45,918		-		(141,065)
Total Expenditures	<u>\$ 11,623,215</u>	100.0%	<u>\$ 1,488,192</u>	12.8%	<u>\$ (101,194)</u>

¹ Material account

² Tested account internal controls

³ Expenditures over/(under)-stated; see Findings 1 and 2

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

Balance ¹	General	Non-Grant	Grant	Fiduciary	Total
	Fund	Special Revenue Fund	Special Revenue Fund	Fund	
Beginning Balance	\$ 312,340	\$ 559,589	\$ -	\$ -	\$ 871,929
Revenues	10,896,208	177,931	421,045	-	11,495,185
Expenditures	(10,897,957)	(248,384)	(476,874)	-	(11,623,215)
Transfers In	79,311	-	-	-	79,311
Transfers Out	(135,139)	-	55,828	-	(79,311)
Ending Balance	<u>\$ 254,763</u>	<u>\$ 489,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 743,900</u>
Errors Noted ²					
Revenues	\$ (101,805)	\$ -	\$ -	\$ -	\$ (101,805)
Expenditure	(101,194)	-	-	-	(101,194)
Totals	<u>\$ (202,999)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (202,999)</u>

¹ Differences due to rounding.

² Revenues and expenditures over/(under)-stated; see Findings 1 and 2.

Findings and Recommendations

FINDING 1— Unadjusted Revenues

In our testing of revenue transactions, we noted several instances of unadjusted revenue posted to the current year (FY 2019-20) operating accounts. The Court did not adjust its revenue accounts for differences between prior-year (FY 2018-19) revenues that were received during the current year and the amounts that had been accrued in the prior year.

All judicial branch trial courts use the SAP (Phoenix) accounting system, which uses automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year. Revenue that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

We noted other differences that occurred in revenue accounts because deposits for the prior year were received during the current year, but were not accrued in the prior year. Such differences lead to overstated current-year program account balances when not adjusted.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, GL Account Number 899910 and promote more accurate reporting of program revenue earned in the current fiscal year.

A summary of revenue accrual adjustment and posting errors is as follows:

- GL Account Number 834010 (TCTF – Court Interpreter) – The Court accrued \$52,755 in the prior year (FY 2018-19) that was not received subsequently in the current year (FY 2019-20). This unadjusted difference resulted in the current-year program revenue account being understated by \$52,755.
- GL Account Number 831012 (General Fund – Prisoner Hearing Costs) – The Court received a deposit of prior-year reimbursement revenue for \$35,799, but accrued \$42,008 in the prior year. This unadjusted difference resulted in the current-year program revenue account being understated by \$6,208.
- GL Account Number 832011 (TCTF – Jury)
 - The Court received a \$7,259 deposit of prior-year reimbursement revenue that was not accrued in the prior year. This unadjusted difference resulted in the program revenue account balance being overstated by \$7,259.
 - The Court expended reimbursable costs of \$611 during the current year, but did not accrue a reimbursement. This accrual error resulted in the current-year program revenue account balance being understated by \$611.
- GL Account Number 832010 (TCTF – MOU Reimbursements) – The Court incorrectly posted a Case Management program reimbursement of \$125,796 to this account. The reimbursement should have been posted to GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement). This error

- resulted in GL Account Number 832010 (TCTF – MOU Reimbursements) being overstated by \$125,796.
- GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement)
 - The Court incorrectly posted a Case Management program reimbursement of \$125,796 to GL Account Number 832010 (TCTF – MOU Reimbursements). This error understates the State Trial Court Improvement and Modernization Fund Reimbursement account by \$125,796.
 - The Court incorrectly posted a Case Management program reimbursement of \$101,194 to the expense account of IT Software and License Fees, GL Account Number 943502. This error understates both the State Trial Court Improvement and Modernization Fund Reimbursement revenue and the Information Technology expenditures by \$101,194 each.
 - The Court received a deposit of prior-year revenue for \$11,884 that was not accrued in the prior year. This unadjusted deposit overstates the State Trial Court Improvement and Modernization Fund Reimbursement program revenue by \$11,884.
 - The Court received a reimbursement for \$28,408 toward the Jury System Grant program. Of this amount, \$11,938 applied to expenditures incurred in the prior year. The unadjusted deposit overstates the State Trial Court Improvement and Modernization Fund Reimbursement program revenue by \$11,938.

In connection with our review of transactions recorded in GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement), we noted also that the Court records its Jury System Grant project reimbursements and expenditures in different funds. Grant-specific reimbursements and expenditures should be reported in the same fund for comparability of program activities.

Reimbursements are deposited into the Court's General Fund (Fund Number 110001) through a claims process with the JCC. The Court records its project expenditures in the 2% Automation Fund (Fund Number 180004) and views the 2% Automation Fund as the best and most consistent choice of funds because the funding appropriated to the Improvement and Modernization Fund is restricted for use on Jury Systems.

The JCC classifies the 2% Automation Fund as a restricted special revenue fund in its trial court accounting system. By moving the reimbursement deposits from the General Fund to the 2% Automation Fund through inter-fund transfers, the Court will more correctly match both the source and use of funds and improve its financial reporting.

The exceptions noted above resulted in an overall understatement of \$101,805 in reported program revenue for FY 2019-20 operating accounts. The JCC's uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court General Ledger. Revenues are reclassified by

using GL Account Number 899910 (Prior Year Revenue Adjustment) to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but received in the current year. Expenditures are reclassified in a similar way by using GL Account Number 999910 (Prior Year Expense Adjustment).

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled with current year transactions and reported in 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 the Prior-Year Revenue Adjustment account in its FY 2019-20 *Year-End Close Training Manual—General Ledger*.

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 fiscal 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 JCC's FIN Manual (10th edition, June 2019) 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.

We also recommend ensuring that revenues and expenditures match by transferring the grant funded Jury System Grant project reimbursements and deposits from the General Fund to the 2% Automation Fund.

FINDING 2— Unadjusted Expenditures

In our testing of the Court's FY 19-20 Contracted Services expenditures, we found a \$141,065 prior-year (FY 2018-19) transaction that was processed and recorded in the current year operating account, GL Account Number 938404 (Administrative). The administrative charges had not been previously accrued and no entry was made to GL Account Number 999910 (Prior Year Expense Adjustment) to reclassify the unaccrued transaction. The JCC guidance is the same as indicated in Finding 1.

The JCC's Administrative Division staff introduced new guidance for using the Prior Year Expenditure Adjustment account in its FY 2019-20 *Year-End Close Training Manual—General Ledger*.

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 fiscal 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 JCC's FIN 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 review entries to ensure that unaccrued prior-year transactions are reclassified by adjustment to the Prior Year Expenditure Adjustment account, GL Account Number 999910.

FINDING 3— Internal Control Deficiencies – missing vendor contracts

As part of testing expenditures for Contracted Services, we also asked to inspect supporting documentation for psychological and psychiatric evaluation charges. We found that the Court does not have contracts with the vendors that provide these services. To substantiate the expenditure charges, the Court provided adequate supporting claim records and court orders that identify case numbers, psychological evaluators, and details of services requested. We noted no excessive charges, abuse, accounting errors, or improper authorizations.

We also reviewed contracting policies established by the Court and by the JCC for guidance. However, using some form of agreement when acquiring vendor services is a best practice and a routine operating requirement to control costs and liabilities. We acknowledge that the Court operates with a small staff and in a small community with fewer vendor resources and, as a result, the Court may face difficulties in obtaining some services and contracts. However, the Court should establish basic written procedures for acquiring and contracting the services that are unique to the Court's needs.

Recommendation

We recommend that the Court consider updating its *Local Contracting Manual*, dated January 1, 2013, to include a process for identifying, authorizing, and compensating vendor services in the absence of standard contracts.

FINDING 4— Internal Control Deficiencies - missing benefit forms and incorrectly posted payroll account

We included in our expenditure testing a review of the Court's salaries and benefits accounting. Our procedures included reviewing a sample of employee payroll records and health benefit election forms. We reviewed these records to verify that the Court maintains properly authorized and completed forms, and to verify that expenditures are being recorded accurately in the accounting records.

We noted two exceptions in our testing of payroll and benefits accounting:

- We inspected benefit election forms to verify that they were correctly completed and approved by the Court and signed by appropriate employees. For two of nine samples selected, the Court was unable to provide employee-signed health benefits election forms; however, the Court was able to provide adequate alternative documentation to substantiate benefit elections and amounts charged for the two employees. As a best practice of internal control and compliance and to reduce the risk of dispute or error, the Court should maintain in its official personnel files signed, original election forms for all employees.
- In reviewing payroll records, we observed that charges for temporary help employees were incorrectly posted to a salaries account, GL Account Number 900301 (Permanent), instead of to GL Account Number 903301 (Temp Help). Court representatives stated that temporary help charges are posted as permanent salaries on its monthly payroll register; however, these charges should be posted in the Temp Help account (GL Account Number 903301). Reconciling payroll registers and ledger records should reveal inconsistencies so that errors can be corrected, even if they are not significant. The share of the Court's temporary help charges is not significant to the Court's total salaries and benefit expenditures. However, the Court does include temporary help costs in preparing its annual budgets, and would benefit from improving the accuracy of the accounting information it uses to forecast and budget costs.

Recommendation

We recommend that the Court:

- Strengthen its system of controls by reviewing personnel files to ensure that it retains appropriate employee records, such as health benefit election forms; and
- Correct the payroll register account coding for temporary help to ensure that these charges are correctly posted to the Temp Help account (GL Account Number 903301).

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



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF MADERA**

COURT ADMINISTRATION

200 SOUTH G STREET
MADERA, CA 93637
(559) 416-5510

HON. ERNEST J. LICALSI
PRESIDING JUDGE

HON. DALE J. BLEA
ASST PRESIDING JUDGE

ADRIENNE Y. CALIP
COURT EXECUTIVE OFFICER

AMY DOWNEY
ASST COURT EXECUTIVE OFFICER

April 4, 2022

Joel James, Chief
Financial Audits Bureau, Division of Audits
State Controller's Office
PO Box 942850
Sacramento, CA 94250
jjames@sco.ca.gov

Via Email

RE: Audit Report Fiscal Compliance Audit FY2019-2020

Mr. James,

Please find the attached responses from Madera Superior Court to the Office of State Controller's Fiscal Compliance Audit, dated April 1, 2022. We have reviewed the report and are responding to each finding and observation that addresses the Court's fiscal compliance.

Please let me know if you have any questions regarding this information.

Sincerely,

Adrienne Y. Calip
Court Executive Officer
Madera Superior Court
(559) 416-5510
Adrienne.Calip@madera.courts.ca.gov

MADERA SUPERIOR COURT RESPONSES TO SCO DRAFT AUDIT REPORT DATED APRIL 1, 2022

FINDING 1: Unadjusted Revenues

Superior Court Response by Staci Martines, Interim Chief Financial Officer / Adrienne Y. Calip, Court Executive Officer Date: April 4, 2022

Recommendation 1 Response: The Court agrees with the recommendation and has already implemented accounting procedures for accurate reporting of prior-year transactions and accrual differences. An audit will be performed in Period 13 to correct any errors in accruals. After the closure of Period 13 any differences will be reclassified to the Prior Year Adjustments - Revenue general ledger account.

Recommendation 2 Response: The Court agrees that any Jury System Grant project reimbursements should be transferred from the General Fund to the more appropriate 2% Automation Fund. Any future reimbursement will be accounted for in this manner.

FINDING 2: Unadjusted Expenditures

Superior Court Response by Staci Martines, Interim Chief Financial Officer / Adrienne Y. Calip, Court Executive Officer Date: April 4, 2022

Recommendation Response: The Court agrees with the recommendation and has already implemented accounting procedures for accurate reporting of prior-year transactions. An audit will be performed in Period 13 to correct any errors in accruals. After the closure of Period 13 any differences will be reclassified to the Prior Year Adjustments - Expenditures general ledger account.

FINDING 3: Internal Deficiencies – missing vendor contracts

Superior Court Response by Staci Martines, Interim Chief Financial Officer / Adrienne Y. Calip, Court Executive Officer Date: April 4, 2022

Recommendation Response: The Court issues Orders indicating the vendor to be used for each case. The Court also sets rates of reimbursement to which each vendor must adhere. The rates of reimbursement are communicated to each vendor via official Court correspondence. Any additional costs by the vendor must have substantiating documentation and must be approved by the judge presiding over the case prior to payment by the Court. Our local rules of court will be updated in the amendment cycle immediately succeeding the issuance of the final audit report to include the latest reimbursement rate for psychological evaluations. While the Court maintains that the correspondence issued to each vendor performing the evaluations sufficiently outlines the rates/terms of payment, formalized contracts will be drafted and executed in the future.

FINDING 4: Internal Control Deficiencies – missing benefit forms and incorrectly posted payroll account

Superior Court Response by Staci Martines, Interim Chief Financial Officer / Adrienne Y. Calip, Court Executive Officer Date: April 4, 2022

Recommendation 1 Response: The Court agrees with the recommendation. In addition, the Court and County are currently implementing an electronic health insurance tracking system and, moving forward, health benefit election forms will be electronic and stored in Madera County's Human Resources information systems records. It is the Court's understanding that it will have full access to all employee benefit and enrollment information through this system, which will eliminate the need for paper copies of employee benefit information.

Recommendation 2 Response: The Court agrees with the recommendation that temporary salaries be separated from permanent salaries by appropriate coding in the payroll register. The court has implemented this change effective 10/1/2021.

**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: 06/29/2022

Action Item #4 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

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

Supporting Documents:

- ***Attachment D***—Audit report of Tulare 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 Tulare Superior Court (Court) substantially complied with the governing statutes, rules, regulations, and policies for the revenues, expenditures, and fund balances under the Court’s control.

The SCO audit team did not identify any reportable audit findings. Staff recommends the committee approve the audit for public posting.

SUPERIOR COURT OF CALIFORNIA, COUNTY OF TULARE

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

March 2022



BETTY T. YEE
California State Controller

March 4, 2022

Stephanie Cameron, Court Executive Officer
Superior Court of California, County of Tulare
221 South Mooney Boulevard
Visalia, CA 93291

Dear Ms. Cameron:

The State Controller's Office audited the Superior Court of California, County of Tulare (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 complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances.

This report is for the Court's information and use.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Sophia Almanza, Court Fiscal Officer
Superior Court of California, County of Tulare
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 Tulare (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 revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, 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 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, California Rules of Court 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 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 reported revenues of \$35,085,043. The Court receives the majority of its revenue from state financing sources. The Trial Court Trust Fund provided 71.2% of the Court's revenue. For this period, the Court incurred expenditures of \$34,913,018. Personal services (salaries and benefits) comprised 74.8% of total expenditures. The Court employs approximately 250 staff members to serve Tulare County's population of approximately 477,000 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.

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

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.

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 with 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 responding to our objectives.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 20 revenue items and 46 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the impact of the identified errors. Errors were not projected to the population.

Revenue Testing

We designed our revenue 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.

- We tested revenue transactions and account balances in the General Fund, the Special Revenue Non-Grant Fund, and the Special Revenue Grant 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 accounts that exceeded 4% of total revenues and determined that the Trial Court Trust Fund, Improvement and Modernization Fund, Court Interpreter, Memorandum of Understanding Reimbursements, and Enhanced Collections accounts were material. We also selected the Other Miscellaneous and Interest Income accounts for testing. We tested accounts through combined sampling and analytical procedures.
- We tested \$32,383,956 of \$35,085,043, or 92.3% of total revenues.

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

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Special Revenue Non-Grant Fund, and Special Revenue Grant 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 separated accounts into payroll-related expenditures and non-payroll operating expenditures.
- To test payroll, we selected two bi-monthly pay periods, December 2019 (period number 24) and April 2020 (period number 8), and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected five of 250 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay was supported by salary schedules and Personnel Action Forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.

- To test material non-payroll accounts, we:
 - Selected all expenditure transactions that exceeded \$67,500;
 - Selected a sample of 41 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 \$1,633,572 of \$34,913,018, or 4.7% of total expenditures.

We found no errors in the recording of transactions. Schedule 2—Summary of Expenditures and Expenditure Test Results, presents, by account, 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, 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 complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

**Follow-up on
Prior Audit
Findings**

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC’s Internal Audit Services, which issued a report in July 2015. We are not including any follow-up to matters presented in JCC’s prior report.

**Views of
Responsible
Officials**

We discussed our audit results with the Court’s representatives during an exit conference conducted on October 26, 2021. The Court agreed with the audit results and declined a draft audit report. The Court agreed that we could issue the audit report as final.

Restricted Use

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

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

March 4, 2022

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

Revenue Accounts	Revenues Reported		Revenues Tested		Errors ⁴
	Totals	Percentage	Amounts	Percentage	Amount
<u>State Financing Sources</u>					
Trial Court Trust Fund ^{1,2}	\$ 24,983,343	71.2%	\$ 24,983,343	100.0%	\$ -
Improvement and Modernization Fund	59,691	0.2%	59,691	100.0%	-
Judges' Compensation	-	0.0%	-	100.0%	-
Court Interpreter ¹	1,587,506	4.5%	1,587,506	100.0%	-
Civil Coordination Reimbursement	-	0.0%	-	100.0%	-
MOU Reimbursements ^{1,2,3}	3,053,103	8.7%	3,055,858	100.1%	-
Other Miscellaneous	33,744	0.1%	33,744	100.0%	-
Subtotal	29,717,387		29,720,143		-
<u>Grants</u>					
AB 1058 Commissioner/Facilitator	936,424	2.7%	-	0.0%	-
Other Judicial Council Grants	120,634	0.3%	-	0.0%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	1,057,058		-		-
<u>Other Financing Sources</u>					
Interest Income	91,437	0.3%	12,242	13.4%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	115	0.0%	-	0.0%	-
Local Fees	271,558	0.8%	-	0.0%	-
Non-Fee Revenues	289,425	0.8%	-	0.0%	-
Enhanced Collections ^{1,2,3}	2,423,615	6.9%	2,651,571	109.4%	-
Escheatment	58,893	0.2%	-	0.0%	-
PY Revenue	(3,290)	0.0%	-	0.0%	-
County Program – Restricted	798,724	2.3%	-	0.0%	-
Reimbursement Other	373,140	1.1%	-	0.0%	-
Sale of Fixed Assets	-	0.0%	-	0.0%	-
Other Miscellaneous	6,981	0.0%	-	0.0%	-
Subtotal	4,310,598		2,663,813		-
Total Revenues	<u>\$ 35,085,043</u>	100%	<u>\$ 32,383,956</u>	92.3%	<u>\$ -</u>

¹Material account.

²Tested account internal controls.

³Account balances displayed in financial statements are the net amounts after off-setting adjustments. A test total may exceed its account balance when adjustments are not included in the tested transactions.

⁴Revenues over/(under) stated; no exceptions are reported.

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

Expenditure Accounts	Expenditures Reported		Expenditures Tested		Errors ²
	Totals	Percentage	Amount	Percentage	Amount
Payroll					
Salaries – Permanent ^{1,2}	\$15,190,762	43.5%	\$ 29,724	0.2%	\$ -
Temporary Help	39,284	0.1%	-	0.0%	-
Overtime	139,157	0.4%	-	0.0%	-
Staff Benefits ^{1,2}	10,737,735	30.8%	15,502	0.1%	-
Subtotal	26,106,937		45,226		-
Operating Expenses and Equipment					
General Expense	889,533	2.5%	-	0.0%	-
Printing	111,020	0.3%	-	0.0%	-
Telecommunications	246,419	0.7%	-	0.0%	-
Postage	180,107	0.5%	-	0.0%	-
Insurance	14,889	0.0%	-	0.0%	-
In-State Travel	46,403	0.1%	-	0.0%	-
Out-of-State Travel	108	0.0%	-	0.0%	-
Training	10,440	0.0%	-	0.0%	-
Facility Operations	400,369	1.1%	-	0.0%	-
Utilities	5,731	0.0%	-	0.0%	-
Contracted Services ^{1,2}	5,612,657	16.1%	1,588,346	28.3%	-
Consulting and Professional Services	31,675	0.1%	-	0.0%	-
Information Technology	796,155	2.3%	-	0.0%	-
Major Equipment	229,191	0.7%	-	0.0%	-
Other Items of Expense	3,979	0.0%	-	0.0%	-
Subtotal	8,578,677		1,588,346		-
Special Items of Expense					
Jury Costs	114,775	0.3%	-	0.0%	-
Judgments, Settlements, and Claims	75,200	0.2%	-	0.0%	-
Capital Costs	35,048	0.1%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense Adjustment	2,382	0.0%	-	0.0%	-
Subtotal	227,404		-		-
Total Expenditures	<u>\$34,913,018</u>	100.0%	<u>\$1,633,572</u>	4.7%	<u>\$ -</u>

¹ Material account.

² Tested account internal controls.

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	\$ 792,403	\$ 380,693	\$ -	\$ -	\$ 1,173,096
Revenues	29,542,843	4,485,140	1,057,058	-	35,085,041
Expenditures	(29,006,139)	(4,653,854)	(1,253,025)	-	(34,913,018)
Transfers In	-	-	-	-	-
Transfers Out	(284,078)	88,111	195,967	-	-
Ending Balance	<u>\$ 1,045,029</u>	<u>\$ 300,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,345,120</u>
Errors Noted					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding.

**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: 06/29/2022

Action Item #5 – (Action Required)

External Audit – State Controller’s Office

Requested Action:

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

Supporting Documents:

- ***Attachment E***—Audit report of Ventura 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 Ventura Superior Court (Court) substantially complied with the governing statutes, rules, regulations, and policies for the revenues, expenditures, and fund balances under the Court’s control.

The SCO audit team did identify one audit finding highlighting the Court’s posting of various revenue and expenditure transactions as current year items, which actually pertained to the prior year and should have been posted to prior year revenue/expenditure adjustment accounts in the general ledger.

Staff recommend the committee approve the audit for public posting.

**SUPERIOR COURT OF CALIFORNIA,
COUNTY OF VENTURA**

Audit Report

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

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

March 2022



BETTY T. YEE
California State Controller

March 4, 2022

Brenda L. McCormick, Court Executive Officer
Superior Court of California, County of Ventura
Hall of Justice
800 South Victoria Avenue
Ventura, CA 93009

Dear Ms. McCormick:

The State Controller's Office audited the Superior Court of California, County of Ventura (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 revenues, expenditures, and fund balances. However, our audit identified revenues and expenditures that were not reported correctly in the Court's financial statements 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 the Court's 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: Robert Sherman, Assistant Court Executive Officer
Superior Court of California, County of Ventura
Kelly O'Dell, Director
Superior Court of California, County of Ventura
Richard Cabral, Director
Superior Court of California, County of Ventura
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 Ventura (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 revenues and expenditures that were not reported correctly in the Court's financial statements 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 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, California Rules of Court 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 subject matter of our audit.

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates monies in the TCTF to trial courts. The TCTF'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 reported revenues of \$57,713,038. The Court receives the majority of its revenue from state financing sources. The TCTF provided 69.9% of the Court's revenue. For the audit period, the Court incurred expenditures of \$59,597,585. Personal services (salaries and benefits) comprised 74.4% of total expenditures. The Court employed 439 staff members to serve Ventura County's population of approximately 838,000 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. Audit 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.

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

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.

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 with 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 responding to our objectives.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 25 revenue items and 42 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We also performed a comparative analysis of periodic TCTF distributions and, from the analysis, selected additional transactions for testing. We expanded testing on accounts with transactions containing errors to determine the effect of the identified errors. Errors were not projected to the population.

Revenue Testing

We designed our revenue 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.

- We tested revenue transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special

Revenue Fund to determine whether revenue accounting was consistent with 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 TCTF, the Memorandum of Understanding (MOU) Reimbursements, and the Enhanced Collections accounts were material. We also selected the non-material Court Interpreter and Other Miscellaneous revenue accounts for testing. Our test procedures included a combination of sampling, analytical procedures, inquiries, and review of source documents.
- We tested \$48,937,112 of \$57,713,038, or 84.8% of total revenues.

We found errors in three reimbursement account balances that resulted from unadjusted differences between reimbursements earned and accrued in the prior year, and remittances received in the current year. The combined total amount of error is \$66,619.

The details of our finding are provided in the Finding and Recommendation section of this report. We combined the errors for both revenue and expenditure accounts in a single finding because of their similarity to unadjusted differences for prior-year activities. Schedule 1—Summary of Revenues and Revenue Test Results presents, by account, the total revenues, amounts tested, and error amounts noted.

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to 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 separated accounts into two groups comprised of personal services (payroll and benefits) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods occurring in September 2019 and May 2020, and reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger. We further selected 20 of 439 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay were supported by approved 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 individually significant expenditure transactions that exceeded \$107,000;
 - Selected a sample of 22 expenditure transactions to test internal controls and the accuracy of recording transactions; and
 - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$1,857,307 of \$59,597,585, or 3% of total expenditures.

We also reviewed certain program expenses in connection with MOU Reimbursement testing, and noted additional errors from unadjusted differences that had occurred in five reimbursed expenditure accounts. These errors occurred because the Court did not separate prior year unaccrued expenditures from current operating accounts. These errors do not affect the Court's overall expenditure or fund balance totals; however, they do distort information about current- and prior- year activities. The five accounts are included in the Operating Expenses and Equipment category of the Court's statement of expenditures. The Prior Year Adjustment account is listed among the Special Items of Expense category of accounts.

The details of our finding are provided in the Finding and Recommendation section of this report. We combined the errors for both revenue and expenditure accounts in a single finding because of their similarity to unadjusted differences for prior-year activities. Schedule 2—Summary of Expenditures and Expenditure Test Results presents, by account, the total expenditures, amounts tested, and error amounts noted.

Fund Balance Testing

- We judgmentally selected the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund because these funds had significant balances in revenue and expenditure accounts.
- We tested revenue and expenditure transactions in 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 noted that the reported General Fund balance was understated by \$66,619, as of June 30, 2020, because the Court did not accrue certain reimbursable project expenditures that were incurred in its Self Help Case Management System (CMS) program. Schedule 3—Summary of Fund Balances and Fund Balance Test Results presents, by fund, the total balances, changes in fund balances, and error amounts noted.

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 and expenditures 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
Findings**

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

**Views of
Responsible
Officials**

We issued a draft audit report on January 20, 2022. The Court responded by letter, dated January 26, 2022, agreeing with the audit results. This final audit report includes the Court’s response as an Attachment.

Restricted Use

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

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

March 4, 2022

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

Revenue Accounts ¹	Revenues Reported		Revenues Tested		Errors ²
	Totals	Percentage	Amounts	Percentage	Amount
State Financing Sources					
Trial Court Trust Fund ^{3,4}	\$ 40,332,825	69.9%	\$ 40,332,825	100.0%	\$ -
Improvement and Modernization Fund ²	86,170	0.1%	86,170	100.0%	86,170
Court Interpreter ^{2,4}	1,818,616	3.2%	1,818,616	100.0%	(186,900)
MOU Requirements ^{2,3,4}	4,301,375	7.5%	3,483,184	81.0%	(34,960)
Other Miscellaneous ⁴	968,752	1.7%	968,752	100.0%	-
Subtotal	47,507,737		46,689,547		(135,690)
Grants					
AB 1058 Commissioner/Facilitator	731,545	1.3%	-	0.0%	-
Other Judicial Council Grants	689,975	1.2%	-	0.0%	-
Non-Judicial Council Grants	19,959	0.0%	-	0.0%	-
Subtotal	1,441,479		-		-
Other Financing Sources					
Interest Income	213,585	0.4%	-	0.0%	-
Local Fees	1,108,514	1.9%	-	0.0%	-
Non-Fee Revenues	174,724	0.3%	-	0.0%	-
Enhanced Collections ^{3,4}	7,207,975	12.5%	2,247,565	31.2%	-
Escheatment	6,241	0.0%	-	0.0%	-
Prior Year Revenue ²	(15,737)	0.0%	-	0.0%	69,071
County Program - Restricted	-	0.0%	-	0.0%	-
Reimbursement Other	56,422	0.1%	-	0.0%	-
Other Miscellaneous	12,097	0.0%	-	0.0%	-
Subtotal	8,763,821		2,247,565		69,071
Total Revenues	\$ 57,713,038	100.0%	\$ 48,937,112	84.8%	\$ (66,619)

¹ Differences due to rounding.

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

³ Material account.

⁴ Tested account internal controls.

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

Expenditure Accounts ¹	Expenditures Reported		Expenditures Tested		Errors ²
	Totals	Percentage	Amounts	Percentage	Amount
<u>Payroll</u>					
Salaries – Permanent ^{3,4}	\$ 28,645,709	48.1%	\$ 75,256	0.3%	\$ -
Temporary Help	64,813	0.1%	-	0.0%	-
Overtime	277,480	0.5%	-	0.0%	-
Staff Benefits ^{3,4}	15,339,185	25.7%	28,591	0.2%	-
Subtotal	44,327,186		103,846		-
<u>Operating Expenses and Equipment</u>					
General Expense ²	1,302,414	2.2%	56,789	4.4%	56,789
Printing	242,910	0.4%	-	0.0%	-
Telecommunications	230,795	0.4%	-	0.0%	-
Postage	535,501	0.9%	-	0.0%	-
Insurance	20,923	0.0%	-	0.0%	-
In-State Travel ²	51,235	0.1%	1,344	2.6%	1,344
Out of State Travel	9,850	0.0%	-	0.0%	-
Training ²	110,705	0.2%	(450)	-0.4%	(450)
Security Services	1,968,535	3.3%	-	0.0%	-
Facility Operations ²	1,117,690	1.9%	517	0.0%	517
Utilities	7,123	0.0%	-	0.0%	-
Contracted Services ^{2,3,4}	6,163,200	10.3%	1,753,460	28.5%	-
Consulting and Professional Services	1,371,884	2.3%	-	0.0%	-
Information Technology ²	1,778,123	3.0%	3,117	0.2%	3,117
Major Equipment	53,604	0.1%	-	0.0%	-
Other Items of Expense	13,410	0.0%	-	0.0%	-
Subtotal	14,977,901		1,814,777		61,317
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	303,829	0.5%	-	0.0%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense ²	(11,331)	0.0%	(61,317)	541.1%	(61,317)
Subtotal	292,498		(61,317)		(61,317)
Total Expenditures	\$ 59,597,585	100.0%	\$ 1,857,307	3.1%	\$ -

¹ Differences due to rounding.

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

³ Material account.

⁴ Tested account internal controls.

**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	\$ 3,525,432	\$ 106,864	\$ -	\$ -	\$ 3,632,296
Revenues	46,876,672	9,394,887	1,441,479	-	57,713,038
Expenditures	(48,366,107)	(9,265,189)	(1,966,289)	-	(59,597,585)
Transfers In	-	-	-	-	-
Transfers Out	(613,068)	88,259	524,809	-	-
Ending Balance	<u>\$ 1,422,928</u>	<u>\$ 324,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,747,749</u>
Errors Noted ²					
Revenues	\$ (66,619)	\$ -	\$ -	\$ -	\$ (66,619)
Expenditure	-	-	-	-	-
Total	<u>\$ (66,619)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,619)</u>

¹ Differences due to rounding.

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

Finding and Recommendation

FINDING— Revenue and expenditure adjustment and accrual accounting errors

Certain operating revenue and expenditure accounts were incorrectly presented and stated in the Court's financial statements. In three revenue accounts, the Court did not reclassify revenues attributable to the prior year (FY 2018-19) by making adjusting entries to current-year (FY 2019-20) operating accounts and General Ledger (GL) Account Number 899910 – Prior Year Revenue Adjustment. In one of the three operating revenue accounts, the Court also did not claim and accrue reimbursements for eligible projects costs that were incurred in FY 2019-20.¹

Additionally, while reviewing the reimbursed expenditures in connection with testing GL Account Number 832010 – TCTF-MOU Reimbursement, we noted that the Court did not adjust and reclassify payments for prior-year expenditures.

The unadjusted differences are as follows:

- GL Account Number 834010 – TCTF-Court Interpreter

The Court accrued revenue of \$186,900 in FY 2018-19 that was not received in FY 2019-20. Accruals are automatically reversed by the Court's accounting system in the subsequent year that follows the accrual. In the absence of receipts or other accruals, a reversal creates a deficit in the account's balance of the next year. Court staff members informed us that this revenue was received in FY 2020-21. The deficit can be reclassified by an adjusting entry to GL Account Number 899910 – Prior Year Revenue Adjustment. Alternatively, if the Court is able to anticipate collection, it can offset the deficit with another accrual. Neither entry was recorded; as a result, the account was understated by \$186,900.

- GL Account Number 832010 – TCTF-MOU Reimbursement

The Court accrued revenue of \$89,445 in FY 2018-19 for the Self Help CMS program (project number M-5602-118-01), and received \$121,104 in FY 2019-20. The excess of \$31,659 should have been reclassified by an adjustment to the operating account, and recorded in GL Account Number 899910 – Prior Year Revenue Adjustment. As a result, the account is overstated by \$31,659.

In addition, some project expenses that were incurred in FY 2019-20 were not claimed until the following fiscal year. These unclaimed costs were not accrued for reimbursement in FY 2019-20. The Court expended \$606,673 in FY 2019-20 for the Self Help CMS program (project numbers M-5602-119-01 and M-5602-119-02), but claimed reimbursement for only \$540,054. The remaining expenditures of \$66,619 were neither claimed nor accrued at year-end and, as a result, the reimbursement account balance was equally understated by \$66,619.

We reviewed the grant to verify its project requirements and to determine whether the Court fully used the grant funds that were

¹ Reimbursements are recognized as revenue for financial-statement presentation.

available for authorized projects under the grant terms. The grant stipulates that for reimbursement, funds must be expended or encumbered by June 30, 2020. The Court provided correspondence from the grantor (JCC) showing that funds from FY 2019-20 were available and the Court could claim indirect costs. By applying certain FY 2019-20 indirect costs, the Court satisfied the grant terms requiring expenditure of the full amount of the grant, and provided a copy of the journal entry that reclassifies eligible indirect costs to an authorized and reimburseable grant project in FY 2020-21. The reimbursement should have been entered as an adjustment to prior-year revenue when it was received.

These errors, when combined, resulted in a net understatement of \$34,960 to GL Account Number 832010 – TCTF-MOU Reimbursement.

- GL Account Number 837011 – State Trial Court Improvement and Modernization Fund Reimbursement

The Court received revenue of \$86,170 for FY 2018-19; this amount was neither accrued in FY 2018-19 nor adjusted in FY 2019-20. The excess of \$86,170 should have been reclassified by an adjustment to the operating account, and entered in GL Account Number 899910 – Prior Year Revenue Adjustment. As a result, the account was overstated by \$86,170.

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. The revenue account of the subsequent year should be adjusted to correctly report revenue earned in that fiscal year.

- Unadjusted operating expenditures, various accounts

The Court paid for and recorded expenditures of \$61,317 in FY 2018-19 for its Self Help CMS M-5602-118-01 program (as described in our discussion of the unadjusted difference in GL Account Number 832010 – TCTF-MOU Reimbursement). The expenditures were not accrued in FY 2018-19, and should have been reclassified to GL Account Number 999910 – Prior Year Expense Adjustments.

As a result, various expenditure operating accounts were overstated for a total of \$61,317, as shown in the following table:

Description	Account Number	Expended
Office Furniture – Minor	922603	\$ (1,483)
Minor Equipment – Under \$5,000	922699	57,797
General Expense – Service	923999	475
Travel In State	929299	1,344
Training	933101	(450)
Other Facility Costs – Goods	935799	517
IT Maintenance	943201	1,385
IT Commercial Contract	943301	1,732
Total		<u>\$ 61,317</u>

The JCC's uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court General Ledger. Revenues are reclassified by using GL Account Number 899910 – Prior Year Revenue Adjustment to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but received in the current year. Expenditures are reclassified in a similar way by using GL Account Number 999910 – Prior Year Expense Adjustments.

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The Court indicated that adjustments were not recorded due to an oversight on the part of staff. 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*.

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.

California Rules of Court 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 or expended from amounts accrued in the prior year should be entered in the adjustment accounts. Amounts either received or expended in the current year for unaccrued prior year operating activities should be also recorded in the adjustment accounts.

**Attachment—
Superior Court’s Comments
Regarding the Audit Results**



*Superior Court of California
County of Ventura*

Hall of Justice
800 South Victoria Avenue
Ventura, CA 93009

*Brenda L. McCormick
Executive Officer/Clerk
and Jury Commissioner*

January 26, 2022

Ms. Kimberly Tarvin, Chief, Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250

Re: *Response to Draft Audit Report*

Dear Ms. Tarvin,

Thank you for the opportunity to respond to the draft audit report dated January 20, 2022.

Audit Finding:

Certain operating revenue and expenditure accounts were incorrectly presented and stated in the Court's financial statements. In three revenue accounts, the Court did not reclassify revenues attributable to the prior year (FY 2018-19) by making adjusting entries to current-year (FY 2019-20) operating accounts and General Ledger (GL) Account Number 899910 – Prior Year Revenue Adjustment. In one of the three operating revenue accounts, the Court also did not claim and accrue reimbursements for eligible projects costs that were incurred in FY 2019-20.¹

Additionally, while reviewing the reimbursed expenditures in connection with testing GL Account Number 832010 – TCTF-MOU Reimbursement, we noted that the Court did not adjust and reclassify payments for prior-year expenditures.

¹ Reimbursements are recognized as revenue for financial-statement presentation.

Ms. Kimberly Tarvin
Division of Audits
California State Controller
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Court Response:

The Court agrees with the finding that certain revenues and expenditures were not reported correctly for the fiscal year in which they were earned. The Court has taken steps to ensure that the reporting error does not re-occur, and revenue and expenditures are recorded in the appropriate fiscal year.

Please let us know if you have questions.

Sincerely,



Brenda L. McCormick
Court Executive Officer

cc: Robert Sherman, Assistant Court Executive Officer
Superior Court of California, County of Ventura
Kelly O'Dell, Director, Fiscal Services
Superior Court of California, County of Ventura

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