



Audit of the Superior Court of California, County of Merced

APRIL 2025



Judicial Council of California

This report contains confidential material for the sole use of the intended recipient(s). Any review, use, distribution, or disclosure to others is strictly prohibited until the audit report is accepted by the Judicial Council.

For authorization to distribute this report to any other parties please contact:

Mr. Joe Meyer
Principal Manager, Audit Services
Judicial Council of California
Phone: (916) 643-7039
E-mail: Joe.Meyer@jud.ca.gov

Superior Court of California, County of Merced

Table of Contents

EXECUTIVE SUMMARY i

BACKGROUND ON THE COURT'S OPERATIONSiv

AUDIT SCOPE AND METHODOLOGY v

SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION 1

 CASH HANDLING.....2

 PROCUREMENT AND CONTRACTS.....9

 PAYMENT PROCESSING 10

 FUND BALANCE 11

 JBSIS CASE FILING DATA..... 12

 ENHANCED COLLECTIONS 13

EXECUTIVE SUMMARY

Government Code, sections 77206(g) and 77009(h) provide the Judicial Council of California (Judicial Council) with the authority to inspect and review superior court records and to perform audits, reviews, and investigations of superior court operations. The Judicial Council's Office of Audit Services (Audit Services) periodically conducts performance audits of the superior courts in order to verify their compliance with the Judicial Council's policies and with state law. These audits are primarily focused on assisting the courts identify which of their practices, if any, can be improved upon to better promote sound business practices and to demonstrate accountability for their spending of the public's funds.

State law authorizes the Judicial Council to establish each superior court's annual budget and to adopt rules for court administration, practice, and procedure. Most of the criteria used by Audit Services stems from the policies promulgated by the Judicial Council, such as those contained within the *Trial Court Financial Policies and Procedures Manual* (FIN Manual) and the *Judicial Branch Contracting Manual* (JBCM). These policies establish both mandatory requirements that all superior courts must follow, as well as suggestive guidance. California's courts drastically vary in terms of their caseloads, budget, and staffing levels, thus requiring the Judicial Council to adopt rules that at times provide the courts with flexibility given their varying resources and constraints. State law also requires the superior courts to operate under a decentralized system of management, and the Judicial Council's policies establish the boundaries within which courts exercise their discretion when managing their day-to-day operations.

Audit Services' annual audit plan for the Judicial Branch establishes the scope of each audit and provides a tentative schedule for the courts being audited during the fiscal year. The audit plan explains those scope areas deemed to be of higher risk based on Audit Services' professional judgment and recognizes that other state audit agencies may, at times, perform reviews that may overlap with Audit Services work. In those instances, Audit Services may curtail its planned procedures as noted in the scope and methodology section of this report.

Summary of Audit Results

Our audit found that the Superior Court of California, County of Merced (Court) demonstrated compliance with most of the Judicial Council's requirements evaluated during the audit, and should be commended for its receptiveness to suggestions for further improvement. Table 1 below presents a summary of the audit's results.

Table 1 – Audit Results At A Glance – California Superior Court, County of Merced

Areas and Sub-Areas Subject to Review		Tested	Reportable Audit Findings		
			# of Findings	Finding Reference(s)	Court's View
Cash Handling					
1	Daily Opening Process	Yes	✓		
2	Voided Transactions	Yes	✓		
3	Manual Receipts	Yes	1	2024-3-01	Agrees
4	Mail Payments	Yes	1	2024-4-01	Agrees
5	Internet Payments	Yes	✓		
6	Change Fund	Yes	✓		
7	End-Of-Day Balancing and Closeout	Yes	✓		
8	Bank Deposits	Yes	1	2024-8-01	Agrees
9	Other Internal Controls	Yes	1	2024-9-01	Agrees
Procurement and Contracts					
10	Procurement Initiation	Yes	✓		
11	Authorization & Authority Levels	Yes	✓		
12	Competitive Procurements	Yes	✓		
13	Non-Competitive Procurements	Yes	✓		
14	Leveraged Purchase Agreements	Yes	✓		
15	Contract Terms	Yes	✓		
16	Other Internal Controls	Yes	✓		
Payment Processing					
17	3-Point Match Process	Yes	✓		
18	Payment Approval & Authority Levels	Yes	✓		
19	Special Rules - In-Court Service Providers	Yes	✓		
20	Special Rules - Court Interpreters	Yes	✓		
21	Other Items of Expense	Yes	✓		
22	Jury Expenses	Yes	✓		
23	Allowable Costs	Yes	✓		
24	Other Internal Controls	Yes	✓		
Fund Balance					
25	Year-End Encumbrances	Yes	✓		
26	Use of "Held on Behalf" Funds	N/A	-		
JBSIS Case Filing Data					
27	Validity of JBSIS Data	Yes	✓		
Enhanced Collections					
28	Enhanced Collections	Yes	✓		

Source: Auditor generated table based on testing results and court management's perspective.

Note: Areas subjected to testing are generally based on requirements in the Trial Court Financial Policies and Procedures Manual, the Judicial Branch Contracting Manual, or California Rules of Court, but may also include other Judicial Council policies and directives. Areas not tested are based on audit determinations—such as area was not applicable, recently reviewed by others, or no transactions were selected to review—which are described more fully in the Audit Scope and Methodology section of the report. Applicable criteria are cited in each audit finding (as referenced above) in the body of our report. The Judicial Council's audit staff determine the scope of each audit based on their professional judgment and the needs of the Judicial Council, while also providing courts with an opportunity to highlight additional areas for potential review depending on available audit resources.

The Court demonstrated consistent adherence with many of the different compliance requirements evaluated during the audit, as shown in Table 1. In particular, the Court demonstrated good compliance in the area of meeting enhanced collections requirements. For example, our review found that the Court properly supports its timekeeping and other expenses that it charges to enhanced collections activities.

However, our audit did identify four reportable audit findings where we believe the Court should consider taking corrective action to improve its operations and more fully comply with the Judicial Council's policies. These four findings are identified in Table 1 under the column "Reportable Findings" and include reference numbers indicating where the reader can view in further detail the specific findings and the Court's perspective.

One particular area of focus for the Court as it considers opportunities for improvement should include strengthening control over its mail and drop-box payment processing. Specifically, the Court does not restrictively endorse checks, including money orders and other negotiable instruments, immediately upon receipt in the mail or drop box. The FIN Manual requires courts to restrictively endorse checks immediately upon receipt. However, the Court does not restrictively endorse checks, money orders, or other negotiable instruments until they are processed. When courts do not restrictively endorse checks immediately upon receipt as required, they risk that unendorsed checks may be lost or stolen and cashed or deposited in a non-court bank account. The Court indicated it agreed with our finding and recommendation in this area and implemented corrective action in July 2024.

Summary Perspective of Court Officials

Audit Services initiated its audit of the Court on April 2, 2024, and completed its fieldwork in November 2024. Audit Services shared the draft findings with the Court starting on June 25, 2024, and received the Court's final official responses on July 8, 2024. The Court agreed with the findings, and its specific responses are included in the body of the report after each finding.

BACKGROUND ON THE COURT’S OPERATIONS

The Superior Court of California, County of Merced (Court) operates five court facilities in the cities of Merced and Los Banos. The Court operates under the authority and direction of the Presiding Judge, who is responsible for ensuring the effective management and administration of the Court, consistent with any rules, policies, strategic plan, and the funding provided by the Judicial Council.

California’s 58 superior courts each have differing workloads, staffing levels, and financial resources. They operate under a decentralized system of governance and are each responsible for their own local court operations and business decisions. The Presiding Judge has the authority to: develop a local budget and allocate the funding provided by the Judicial Council; approve procurements and contracts; and authorize the Court’s expenditures. The information in Table 2 is intended to provide the reader with context and perspective on the Court’s relative size and workload compared to averages of all 58 superior courts.

Table 2 – Statistical Data for Merced Superior Court and Average of all Superior Courts

Statistic	Merced Superior Court	Average of All Superior Courts				
		Cluster 1 Courts	Cluster 2 Courts	Cluster 3 Courts	Cluster 4 Courts	All 58 Courts
Financial Highlights (Fiscal Year 2023-24)						
Total Revenue	\$ 23,699,204	\$ 3,376,457	\$ 15,000,011	\$ 57,522,113	\$ 293,144,702	\$ 59,889,520
Total Expenditures	\$ 23,369,955	\$ 3,494,275	\$ 15,091,980	\$ 57,533,804	\$ 293,520,524	\$ 60,009,333
Staff Salaries & Benefits As a % of Total Expenditures	\$ 16,755,853 71.7%	\$ 2,181,311 62.4%	\$ 11,118,697 73.7%	\$ 42,462,619 73.8%	\$ 225,828,428 76.9%	\$ 45,447,802 75.7%
Judicial Officers and Staff (2025 Court Statistics Report)						
Judges	11	2	8	30	144	30
Commissioners/Referees	2	-	1	4	21	4
Non-Judicial Staff (approx.)	143	17	86	298	1,380	294
Total	156	19	95	332	1,545	328
New Case Filings (Fiscal Year 2023-24)						
Appeal Filings	107	10	82	154	217	98
Civil Filings						
Civil	5,140	356	2,487	11,390	75,156	13,954
Family Law	2,776	234	1,537	5,460	25,574	5,395
Juvenile Delinquency	317	34	166	776	1,988	520
Juvenile Dependency	393	27	164	461	3,267	623
Mental Health	47	19	226	1,428	9,413	1,709
Probate	417	55	321	1,097	5,182	1,097
Small Claims	554	34	257	1,058	7,195	1,336
Criminal Filings						
Felonies	1,781	225	1,149	3,853	13,188	3,177
Misdemeanors / Infractions	29,696	4,031	18,513	59,228	254,665	56,466
Total	41,228	5,025	24,902	84,905	395,845	84,375

Source: Financial and case filings data maintained by the Judicial Council. The date ranges differ for the above information due to the different sources of data. The financial data is from the Judicial Council's Phoenix financial system, the judicial officer and staff counts are from the most recent Court Statistics Report, and the case filing counts are from the Judicial Branch Statistical Information System data as of March 19, 2025, and may not agree with other reports as this data is continuously updated.

Note: The Judicial Council generally groups superior courts into four clusters and uses these clusters, for example, when analyzing workload and allocating funding to courts. According to past Judicial Council documents, the cluster 1 courts are those superior courts with between 1.1 and 4 judicial position equivalents (JPEs), cluster 2 courts are those with between 4.1 and 20 JPEs, cluster 3 courts are those with between 20.1 and 59.9 JPEs, and cluster 4 courts are those with 60 or more JPEs. Merced Superior Court is a cluster 2 court.

AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of Merced (Court) in order to determine whether it complied with certain key provisions of statute and the policies and procedures adopted by the Judicial Council of California. Our audit was limited to evaluating compliance with those requirements that, in our professional judgment, were necessary to answer the audit's objectives. The period covered by this audit was generally limited to fiscal year (FY) 2022-23, but certain compliance areas noted below required that we review earlier periods or current practices. Table 3 lists the specific audit objectives and the methods we used to address them.

Table 3 – Audit Objectives and the Methods Used to Address Them

	Audit Objective	Method
1	Through inquiry, auditor observation, and review of local court policies and procedures, identify areas of high risk to evaluate the Court's compliance.	Audit Services developed an annual audit plan generally identifying areas of high risk at the superior courts. At the Court, we made inquiries and reviewed any local procedures to further understand its unique processes in each compliance area.
2	<p>Determine whether the Court implemented adequate internal controls over its handling of cash receipts and other payments. Such a review will include, at a minimum, the following:</p> <ul style="list-style-type: none"> ▪ Determine whether the Court complied with the mandatory requirements in the FIN manual for internal controls over cash (payment) handling. ▪ Assess the quality of the Court's internal controls to minimize the potential for theft, such as controls over the use of manual receipts and voided transactions. 	We obtained information from the Court regarding the types and average volume of collections at each of its payment collection locations. For selected locations, we observed the Court's practice for safeguarding and accounting for cash and other forms of payments from the public. For example, we reviewed and observed the Court's practice for appropriately segregating incompatible duties, assigning cash drawers to cashiers at the beginning of the day, reviewing and approving void transactions, safeguarding and accounting for manual receipts, opening and processing mail payments, controlling access to change funds, overseeing the end-of-day balancing and closeout process, and preparing and accounting for the daily bank deposits.

<p>3</p>	<p>Determine whether the Court demonstrated appropriate control over its non-personal services spending activities. Specifically, our review included the following:</p> <ul style="list-style-type: none"> ▪ Determine whether the Court’s procurement transactions complied with the applicable requirements in the Judicial Branch Contracting Manual or the Trial Court Financial Policies and Procedures Manual. ▪ Determine whether the Court’s payment transactions—including but not limited to vendor payments and claim payments—were reasonable and in compliance with the Trial Court Financial Policies and Procedures Manual and applicable Judicial Council policies and rules. 	<p>We reviewed the Court’s assignment of purchasing and payment roles to assess whether it appropriately segregated staff roles for approving purchases, procuring the goods or services, receiving the goods, and paying for the goods or services.</p> <p>We also judgmentally selected a sample of 25 procurement transactions and assessed whether each transaction:</p> <ul style="list-style-type: none"> • Was properly authorized and approved by authorized court management. • Adhered to competitive bidding requirements, when applicable. • Had contracts, when applicable, that contained certain terms required to protect the Court’s interests. <p>We selected a sample of 40 FY 2022-23 payments pertaining to various purchase orders, contracts, or in-court services, and determined whether:</p> <ul style="list-style-type: none"> • The Court followed the 3-point match process as described in the FIN Manual to ensure goods and services are received and accepted, and in accordance with contract terms prior to payment. • Appropriate court staff authorized payment based on the Court’s payment controls and authorization matrix. • The payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810.
----------	--	--

		<ul style="list-style-type: none"> • The payments to in-court service providers adhered to applicable Judicial Council policies.
<p>4</p>	<p>Determine whether the Court properly classified its year-end encumbrances for the most recent completed fiscal year.</p> <p>Determine whether the Court spent any funds the Judicial Council approved the Court to hold from prior year excess fund balance funds only for the purposes approved by the Judicial Council.</p>	<p>We obtained the Court’s Year-End Encumbrance Calculation Worksheet for the most recently completed fiscal year at the time of our testing (FY 2022-23) and traced and verified year-end encumbrances to supporting records and the Phoenix accounting system.</p> <p>The Court has not requested to hold any funds on its behalf in either the current or the previous fiscal year. As a result, no further review was deemed necessary.</p>
<p>5</p>	<p>Determine whether the Court accurately reports case filings data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS).</p>	<p>We obtained an understanding of the Court’s process for reporting case filings data to the Judicial Council through JBSIS. For the most recent fiscal year for which the Judicial Council froze and used JBSIS data for funding allocations (FY 2022-23), we performed the following:</p> <ul style="list-style-type: none"> • Obtained the relevant case filings data the Court reported to JBSIS and reconciled the reported new case filings counts to its underlying records of cases that support each reported case filing count, by case type, to validate that the Court accurately reported its case filings count data. • We selected 10 cases from six case types, for a total of 60 reported cases, and reviewed the relevant case file records to verify that the Court correctly applied the JBSIS definitions for reporting each case filing.

6	Determine whether Enhanced Collections revenue is funding only collections activities.	We obtained the Court’s Collection Report Template for fiscal year 2022-23 and determined whether the Court’s collection program met the minimum requirements for a comprehensive collection program as defined in state law. We identified and analyzed the revenues, expenditures, and transfers ins/outs for Fund 120007 (Enhanced Collections) to verify that Enhanced Collections revenue was used only to fund collections activities.
---	--	--

Assessment of Data Reliability

In performing this audit, we obtained and reviewed financial transaction data from the Phoenix financial system—the statewide accounting system used by the superior courts—for the limited purpose of selecting transactions to test the Court’s compliance with its procurement and related payment activities. Prior to making our selections, we independently queried the Phoenix financial system to isolate distinct types of non-personal service expenditure transactions relevant to our testing—such as by general ledger code—and reconciled the resulting extract with the Court’s total expenditures as noted on its trial balance report for the same period. Our analysis noted no material differences leading us to conclude that use of the Phoenix financial transaction data was sufficiently reliable for the limited purpose of selecting transactions for testing.

Report Distribution

The Judicial Council’s *Advisory Committee on Audits and Financial Accountability for the Judicial Branch* reviewed this report on April 17, 2025, and approved it for public release.

California Rules of Court, Rule 10.500 provides for the public access to non-deliberative or non-adjudicative court records. Final audit reports are among the judicial administrative records that are subject to public access unless an exemption from disclosure is applicable. The exemptions under rule 10.500(f) include records whose disclosure would compromise the security of a judicial branch entity or the safety of judicial branch personnel. As a result, any information meeting the nondisclosure requirements of rule 10.500(f) have been omitted from this audit report.

Audit Staff

This audit was completed by the following staff under the general supervision of Dawn Tomita, Manager, CFE:

Michelle O'Connor, Senior Auditor (auditor in charge), CPA, CGFM, CFE

Lorraine De Leon, Auditor

Pha Moua, Auditor

Usamah Salem, Auditor, CFE

Tia Thao, Auditor

SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION

CASH HANDLING

The Court Should Strengthen Its Controls Over Certain Payment Collection Processes

Background

Trial courts must collect and process customer payments in a manner that protects the integrity of the court and its employees, and promotes public confidence. Thus, trial courts should institute a system of internal control procedures that assure the safe and secure collection, and accurate accounting of all payments. A court's handling of collections is inherently a high-risk activity given the potential incentives for court employees to act inappropriately when mandatory internal controls per the Trial Court Financial Policies and Procedures Manual (FIN Manual) are compromised or not in operation.

Results

Overall, the Court demonstrated compliance in some of the areas we evaluated during the audit. Specifically, the Court demonstrated sound management practices in the areas of its daily opening processes, void transactions, and internet payments.

Nevertheless, we identified four audit findings that we believe require the Court's attention and corrective action. These findings pertained to the following specific areas of cash handling:

Finding Reference	Subject Area
2024-3-01	Manual Receipts – Monitoring and Accounting for Use
2024-4-01	Mail Payments – Endorsement
2024-8-01	Bank Deposits – Prompt Deposit
2024-9-01	Other Internal Controls – Access to Safe

FINDING REFERENCE: 2024-3-01

MANUAL RECEIPTS – MONITORING AND ACCOUNTING FOR USE

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.9 MANUAL RECEIPTS:

5. Issuance of manual receipt books by trial court to court facility supervisor:
 - a. When the court facility supervisor receives the manual receipt books, the facility supervisor must record each book on a log for the facility.
 - b. The log must include the date received, book number, and receipt number sequence (from and to receipt numbers).
6. Issuance of manual receipt book by court facility supervisor or his or her designee to cashiers:

- a. The supervisor or his or her designee must maintain control and oversight of the manual receipt books. When the cashiering system and/or case management system is not available to process automated receipts, the supervisor or designee will retrieve and issue books of prenumbered receipts to cashiers. Manual receipt books should only be used when the cashiering system and/or case management system is down.
- b. The supervisor or his or her designee issuing the prenumbered manual receipt books must monitor and maintain an accounting of the receipt books, including:
 - i. The receipt books issued;
 - ii. To whom the receipt book was issued;
 - iii. The date issued;
 - iv. The name of the person returning the book;
 - v. The date the books were returned (should be the end of the same day); and
 - vi. The receipt numbers used within each book.

11. Return of completely used manual receipt books to central location:

- a. Completely used manual receipt books must be returned to the fiscal office and logged in by recording the date returned and the facility supervisor or designee returning the books.

CONDITION

The Los Banos payment collection location does not maintain a log to account for and monitor the five manual receipt books it controls. The FIN Manual requires outlying court locations to maintain a log that includes the date the manual receipt books are received from Finance, the receipt book numbers and receipt number sequence in each book, the date the completely used manual receipt books are returned to Finance, and the name of the supervisor returning the books. Additionally, the Los Banos payment collection location does not maintain a log to monitor and account for the location's use of its manual receipt books. The FIN Manual requires location supervisors to maintain control and oversight of the manual receipt books and monitor and maintain an accounting of each book issued, to whom the book was issued, the date issued, the person returning the book, the date returned, and the receipt numbers used. According to court staff, they were unaware of these FIN Manual requirements. Nonetheless, when courts do not monitor and thoroughly maintain an accounting of their manual receipt books, they are at increased risk that staff may use manual receipts inappropriately and possibly without clear accountability of who used the manual receipts.

RECOMMENDATION

The Court should ensure its payment collection locations maintain control and oversight of their manual receipt books, including keeping an accurate inventory of all manual receipt books received and returned, and a detailed log to monitor and maintain an accounting of the receipts books and receipts numbers used.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees with the finding. The Court will clarify the procedures and retrain the Los Banos staff on how to maintain the manual receipt logs. Additionally, the Court will provide a refresher training to the Merced staff on how to maintain the manual receipt logs.

Response provided on 7/01/2024 by: Keri Brasil, CFO

Date of Corrective Action: No later than 7/31/2024.

Responsible Person(s): Keri Brasil, CFO and Kao Saepanh, Fiscal Operations Supervisor

FINDING REFERENCE: 2024-4-01*MAIL PAYMENTS – ENDORSEMENT***CRITERIA**

FIN MANUAL, FIN 10.02, 6.3.4 CHECK, MONEY ORDER, AND CASHIER'S CHECK HANDLING PROCEDURES:

4. The trial court must restrictively endorse all checks, warrants, money orders, and other negotiable instruments immediately upon receipt. Endorsements must contain the following information:
 - a. The name of the bank and branch number in which the deposit will be made.
 - b. The statement "For Deposit Only" followed by the name of the trial court.
 - c. The account name and number.

CONDITION

The Court does not consistently restrictively endorse checks, including money orders and other negotiable instruments, immediately upon receipt in the mail or drop box. Instead, the mail and drop-box payments are not restrictively endorsed until they have been processed. According to court staff, the endorsement is added when processed by the check scanning machines integrated with the clerks' computers and the CMS. Nevertheless, the FIN Manual requires courts to restrictively endorse checks immediately upon receipt. Endorsing checks "for deposit only" into the court bank account immediately upon receipt protects a court's interests by limiting the potential for further negotiation of the checks. When courts do not restrictively endorse checks immediately upon receipt as required, they risk that unendorsed checks may be lost or stolen and cashed or deposited in a non-court bank account.

RECOMMENDATION

To ensure the safe, secure collection, and accurate accounting of all payments received through the mail and drop box, the Court should take steps to ensure that all staff consistently restrictively endorse all checks, money orders, and other negotiable instruments immediately upon receipt in the mail and drop box.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees with the finding. The Court has ordered the endorsement stamps to implement the change immediately.

Response provided on 7/01/2024 by: Keri Brasil, CFO

Date of Corrective Action: 7/01/2024

Responsible Person(s): Keri Brasil, CFO and Kao Saepanh, Fiscal Operations Supervisor

FINDING REFERENCE: 2024-8-01*BANK DEPOSITS – PROMPT DEPOSIT***CRITERIA**

FIN MANUAL, FIN 13.01, 6.4 DEPOSITS

3. Courts are required to deposit receipts in a timely and economical manner. Courts must adhere to the following guidelines in determining when to deposit receipts into an appropriate court approved bank account.
 - a. All court locations that have safes, vaults, or other comparable storage that is adequate to safeguard cash may accumulate collections until they amount to \$1,000 in coin/paper currency or \$10,000 in any combination of coin/paper currency, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

FIN MANUAL, FIN 1.01, 6.4 TRIAL COURT OPERATING STANDARDS:

3. A presiding judge or his or her designee who wants to establish an alternative procedure will submit a signed and dated Request for Alternative Procedure (RAP) form (copy provided in 7.0, Associated Documents) to:
 - Judicial Council of California
 - Director of Branch Accounting and Procurement
 - Attn.: Trial Court Alternative Financial Policies and Procedures
 - 2850 Gateway Oaks Drive, Suite 300
 - Sacramento, CA 95833-4348
 - E-mail: TCFin@jud.ca.gov

A written response to the submission of alternative procedures will be returned to the submitting court within 60 business days of receipt of the document. When a Request for Alternative Procedure has been received by Judicial Council of California Staff, an acknowledgment of receipt will be returned to the submitting court. The 60-business-day response time will begin once the court receives that acknowledgment of receipt. Absent a response from Judicial Council of California Staff within 60 business days, the alternative procedure will be in effect, subject to further review and consideration by Judicial Council of California Staff. **Undocumented procedures or those not approved by Judicial Council of California Staff will not be considered valid for audit purposes.**

Once approved, alternative procedures must be documented by the trial court, incorporated into the local trial court manual, and distributed to court personnel. Any alternative procedure that is different from what is included in the *Trial Court Financial Policies and Procedures Manual* or the county's policy document must first be approved by Judicial Council of California Staff.

CONDITION

The Court does not promptly deposit its collections in the bank. Specifically, the Court's Finance division deposits its collections twice per week even though the accumulated cash, checks, money orders, and other negotiable instruments held without deposit consistently exceeds \$10,000. For example, our review of five deposits the Court made over a two-week period in May 2024 found four deposits of more than \$20,000—with the highest totaling almost \$27,000—and the fifth deposit totaling \$14,300. Additionally, the daily coin and paper currency portion of the Court's collections consistently exceeds \$1,000. For instance, on the date of our on-site observation, the Court received more than \$3,700 in coin and currency. According to the Court, its arrangement with the armored car service it uses is for two collection retrievals per week only. Nonetheless, the FIN Manual requires courts to deposit collections when they exceed \$1,000 in cash or \$10,000 in any combination of cash and checks. By not making deposits when required, the Court leaves itself at increased risk for loss or theft of significant amounts of cash and other collections.

RECOMMENDATION

To minimize the potential risk of the loss or theft of large amounts of cash, the Court should promptly deposit cash collections into the bank when they reach \$1,000 in coin/paper currency, or when any combination of coin/paper currency, checks, money orders, and warrants reach \$10,000.

Alternatively, if the Court believes it cannot implement the FIN Manual's requirements due to operational needs, it should prepare and submit to the Judicial Council a request for approval of an alternative procedure for the prompt deposit of collections in the bank.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees with the finding; however, it would like to provide additional information. The Court takes every step to ensure deposits are secured within a locked safe in the Finance Office. The office is only accessible by electronic key card entry by the CEO, PJ and finance staff with no other staff permitted access. The Finance Office also has a security camera that faces the safe to ensure safety of the money and minimize the risk of theft. Additionally, according to the statewide master agreement with the armored transport, Garda, Inc., the Merced Court has limitations on the agreed-upon services which does not allow the Court to deposit the monies daily. The FIN Manual notes that if armored transport services are not available, two court employees "should" be assigned to deliver the deposit jointly. The Court is not able to implement this due to employee safety concerns. The Court is also unable to request an escort from the local police department or sheriff's office due to their limitations of available staff. The Court intends to submit an alternate procedure request for consideration.

Response provided on 7/01/2024 by: Keri Brasil, CFO

Date of Corrective Action: A request for an Alternate Procedure to increase the deposit limit will be submitted for consideration by 3/31/2025.

Responsible Person(s): Keri Brasil, CFO

FINDING REFERENCE: 2024-9-01

OTHER INTERNAL CONTROLS – ACCESS TO SAFE

CRITERIA

FIN MANUAL, FIN 10.02, 6.1.1 USE OF SAFES AND VAULTS:

3. When using safes and vaults, the following procedures must be followed:
 - b. The combination should be memorized by trial court employees and should not be kept in legible form. If necessary to maintain the combination in legible form, it should not be kept in any written or electronic document that identifies it as the combination to the safe and should be maintained in a secure location not visible or accessible to anyone else. Only the court executive officer or the court executive officer's designee is approved to maintain the combination to the safe in legible form that identifies it as such.

CONDITION

The Court should take additional precautions to safeguard the contents of its safes maintained by its outlying locations. Specifically, the safe combinations for these safes are kept in written form by the Finance division and are easily identifiable as the combinations to the safes. The FIN Manual states that if it is necessary to maintain the combination in legible form, it should not be kept in any document that identifies it as the combination to the safe. Only the Chief Executive Officer or designee is approved to maintain the combination in a legible form that identifies it as such. While the Court's safe combination documents are kept in a folder in the locked Finance division safe maintained by the Chief Financial Officer, other court staff members have access to this safe, thus giving them access to the folder with the combinations to the safes at the Court's outlying locations. According to Finance staff, this has been the Court's long-standing practice. As a result, the Court may leave itself susceptible to the potential theft of cash by those individuals with knowledge of the safe combinations and unauthorized access to the safes.

RECOMMENDATION

To ensure it properly safeguards the contents of its safes, the Court should not keep the safe combinations in legible form, except as allowed by the FIN Manual. If it is necessary to maintain the combination in legible form, only the CEO or designee should be allowed to maintain the safe combination in legible form that identifies it as such in a secure location not visible or accessible to anyone else.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees with the finding. The safe log has been moved to a secured location that is only accessible to the CEO and CFO.

Response provided on 7/01/2024 by: Keri Brasil, CFO

Date of Corrective Action: 7/01/2024

Responsible Person(s): Amanda Toste, CEO and Keri Brasil, CFO

PROCUREMENT AND CONTRACTS

The Court Complied with Applicable Requirements for Procuring Goods and Services

Background

Trial courts are expected to procure goods and services in a manner that promotes competition and ensures best value. To achieve this expectation, the Judicial Branch Contracting Manual (JBCM) and the Trial Court Financial Policies and Procedures Manual provide uniform guidelines for trial courts to use in procuring necessary goods and services and in documenting their procurement practices. Trial courts must demonstrate that their procurement of goods and services are conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice. Typically, a purchase requisition is used to initiate all procurement actions and to document approval of the procurement by an authorized individual. The requestor identifies the goods or services, verifies that budgeted funds are available for the purchase, completes the requisition form, and forwards it to the court manager authorized to approve purchase requests. The court manager is responsible for verifying the necessity and appropriateness of the requested items, that the correct account codes are specified and assuring that funds are available before approving and forwarding the requisition form to the staff responsible for procuring goods and services. Depending on the type, cost, and frequency of the goods or services to be procured, court staff responsible for procuring goods and services may need to perform varying degrees of procurement research to generate an appropriate level of competition and obtain the best value. Court procurement staff may need to also prepare and enter the agreed-upon terms and conditions into purchase orders, service agreements, or contracts to document the terms and conditions of the procurement transaction, and maintain a procurement file that fully documents the procurement transaction.

Results

Our review found that the Court complied with applicable requirements for procuring goods and services. Specifically, the Court demonstrated compliance in various areas we evaluated during our audit, including demonstrating sound management practices in the areas of leveraged purchase agreements and other internal controls.

PAYMENT PROCESSING

The Court Complied with Applicable Payment Processing Requirements

Background

Trial courts must institute procedures and internal controls to ensure they pay for appropriate goods and services in an economical and responsible manner, ensuring that they receive acceptable goods and services prior to payment. Thus, the FIN Manual provides courts with various policies on payment processing and provides uniform guidelines for processing vendor invoices and in-court service provider claims. All invoices and claims received from trial court vendors, suppliers, consultants and other contractors are routed to the trial court accounts payable department for processing. The accounts payable staff must process the invoices in a timely fashion and in accordance with the terms and conditions of the respective agreements. Staff must match all invoices to the proper supporting procurement and receipt documentation, and must ensure approval for payment is authorized by court management acting within the scope of their authority.

Results

Our review found that the Court complied with applicable requirements in the payment processing areas we evaluated during our audit. Specifically, the Court demonstrated sound management practices in the areas of three-point match, review and approval prior to payment, and allowable costs.

FUND BALANCE

The Court Appropriately Supported Its Year-End Encumbrances

Background

State law allows trial courts to retain unexpended fund balance reserves in an amount that does not exceed a defined percentage of a court's prior fiscal year operating budget. Operating budget is defined as the court's total expenditures from all funds (excluding fiduciary funds) that are expended for operating the court. Certain types of funds received by the court and restricted for certain purposes—as specifically designated in statute, and including year-end encumbrances—are exempt from this requirement. The intent of the legislation was to prevent trial courts from accumulating significant fund balances instead of spending the funds on court operations. Audit Services reviews year-end encumbrances to ensure courts do not inflate their calculated fund balance caps by overstating total year-end encumbrance amounts for the current fiscal year, avoiding any required reductions in their budget allocation.

In addition, should a court need to retain funds that exceed its fund balance cap, the Judicial Council adopted a process whereby courts that meet certain specified guidelines may request approval from the Judicial Council to hold excess funds “on behalf of the court.” The request specifies how the funds will be used and requires the court to explain why such spending could not occur through its annual operating budget. If the Judicial Council approves the court's request, the Judicial Council may impose additional terms and conditions that courts must accept, including separately tracking the expenditures associated with these funds held on behalf of the court. As a part of the Judicial Council-approved process for approving funds held on behalf of a court, Audit Service is charged with reviewing funds held on behalf of the courts as a part of its normal court audit cycle to confirm that the courts used the funds for their approved stated purpose.

Results

Our review found that the Court complied with the requirements for reporting year-end encumbrances. Specifically, the Court generally supported the encumbrances it reported on its final FY 2022-23 calculation form with valid contracts for goods or services not received by June 30, 2023. Finally, we did not review its use of any excess funds because the Court has not requested the Judicial Council to hold any such funds on its behalf.

JBSIS CASE FILING DATA

The Court Reported Accurate New Case Filing Counts and Data to JBSIS

Background

The Judicial Branch Statistical Information System (JBSIS) is a reporting system that defines and electronically collects summary information from court case management systems for each major case processing area of the court. JBSIS directly supports the technology goals of the Judicial Council's strategic plan, providing information for judicial branch policy and budgetary decisions, management reports for court administrators, and the Judicial Council's legislative mandate to report on the business of the courts. Authorization for JBSIS is found in California Rules of Court, rule 10.400: "Consistent with article VI, section 6 of the California Constitution and Government Code section 68505, JBSIS is established by the Judicial Council to provide accurate, consistent, and timely information for the judicial branch, the Legislature, and other state agencies that require information from the courts to fulfill their mandates. Each trial court must collect and report to the Judicial Council information according to its capability and level of automation as prescribed by the JBSIS Manual adopted by the Judicial Council..." The Court Executives Advisory Committee is responsible for oversight of this program.

Results

Our review found that the Court's records supported the new case filing counts and data it reported to the Judicial Council's Office of Court Research through JBSIS for fiscal year 2022-23.

ENHANCED COLLECTIONS

The Court Appropriately Recovered Costs for its Enhanced Collections Program

Background

Penal Code section 1463.010(a) requires the Judicial Council to adopt guidelines for a comprehensive program concerning the collection of monies owed for fees, fines, forfeitures, penalties, and assessments imposed by court order. In addition, as part of its guidelines, the Judicial Council may establish standard agreements for entities to provide collection services. Section (b) requires courts and counties to maintain the collection program that was in place on January 1, 1996, unless otherwise agreed to in writing by the court and county. The program may be in whole or in part staffed and operated in the court itself, in the county, or contracted with a third party. Also, in carrying out its collection program, each superior court and county is required to develop a cooperative plan to implement the Judicial Council guidelines. Section (c) requires the Judicial Council to develop performance measures and benchmarks to review the effectiveness of the cooperative superior court and county collection programs operating pursuant to this section. Further, it requires each superior court and county to jointly report to the Judicial Council information requested in a reporting template on an annual basis.

The standards by which a court or county may recover the costs of operating a comprehensive collection program are provided in Penal Code section 1463.007. Collection costs (with the exception of capital expenditures) may be recovered from the collection of delinquent court-ordered fines, fees, forfeitures, penalties, and assessments imposed on infraction, misdemeanor, and felony cases before revenues are distributed to any other government entity. A comprehensive collection program is a separate and distinct revenue collection activity that meets certain requirements and engages in certain collection activity components as defined in state law. Eligible costs that can be recovered include staff costs, costs paid to another entity under an agreement for their collection activities, and indirect costs.

Results

Our review found that the Court had a qualified enhanced collections program. Furthermore, we found that the Court appropriately recovered only eligible collection costs.
