



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Informational Item #1 – (No Action Required)

Committee Responsibilities and Open Meeting Requirements

Summary:

Chief of Staff Jody Patel will provide an overview of the history of this committee's predecessor (the former *Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch*) and explain the Chief Justice's reasons for creating a new "audit committee" for the Judicial Branch. One objective was to have the audit committee serve as a "central clearinghouse" for hearing all audit-related activities from external auditors (such as the State Auditor's Office and State Controller's Office) as well as from the Judicial Council's own Audit Services. Another objective was to have the audit committee approve the public posting of audits without having to go through the Judicial Council, yet still have the audit committee elevate significant or cross-cutting issues to the entire council, when necessary.

Audit committee meetings will generally take place in both an open session and a closed session. Most of the committee's work will be held in open session where the final audit reports completed by external auditors will be discussed. Any audit committee discussions regarding the annual audit plan, or committee initiatives, will also be held in public session. Closed session items are reserved for discussing non-final audit reports of the appellate and superior courts (performed by Audit Services) pursuant to Rule of Court 10.75(d)(6).

Public notice of committee meetings must be made at least 5 business days before the meeting (per ROC 10.75(e)(1)) and meeting materials for open session items must be posted at least 3 business days in advance (per ROC 10.75(h)).

Supporting Documents:

- California Rules of Court, Rule 10.63 – Establishment of the *Advisory Committee on Audits and Financial Accountability for the Judicial Branch*
- California Rules of Court, Rule 10.75 – Meetings of advisory bodies, public notice and closed session requirements



California Rules of Court

Rule 10.63. Advisory Committee on Audits and Financial Accountability for the Judicial Branch

(a) Purpose of the rule

One of the most important functions of government is to ensure that public funds are properly spent and accounted for. This committee is charged with advising and assisting the council in performing its responsibilities to ensure that the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently, and in performing its specific responsibilities relating to audits and contracting, as required by law and good public policy.

(Subd (a) adopted effective July 28, 2017.)

(b) Area of focus

The committee makes recommendations to the council on audits and practices that will promote financial accountability and efficiency in the judicial branch.

(Subd (b) amended and relettered effective July 28, 2017; adopted as subd (a).)

(c) Additional duties

In addition to the duties specified in rule 10.34, the committee must:

- (1) Review and approve a yearly audit plan for the judicial branch that will ensure the adequacy and effectiveness of the judicial branch's accounting, financial reporting, compliance, and internal control system; review all audit reports of the judicial branch; recommend council action on audit reports that identify substantial issues; approve all other audit reports and have them posted publicly; and, where appropriate, make recommendations to the council on individual or systemic issues identified in audit reports;
- (2) Advise and assist the council in performing its responsibilities and exercising its authority under Government Code sections 77009 and 77206 and under part 2.5 of the Public Contract Code (commencing with section 19201; the California Judicial Branch Contract Law);
- (3) Review and recommend to the council proposed updates and revisions to the *Judicial Branch Contracting Manual*; and
- (4) Make recommendations concerning any proposed changes to the annual compensation plan for Judicial Council staff.

(Subd (c) amended and relettered effective July 28, 2017; adopted as subd (b).)

(d) Membership

The committee may include members with experience in public or judicial branch finance and must include at least one member in from each of the following categories:

- (1) Justices of the Courts of Appeal;
- (2) Judges of the superior courts;
- (3) Clerk/executive officers of the Courts of Appeal; and

- (4) Court executive officers of the superior courts.

The committee membership must also include at least one nonvoting advisory member who has significant governmental auditing experience.

The California Judges Association will recommend three nominees for a superior court judge position and submit its recommendations to the Executive and Planning Committee of the Judicial Council.

(Subd (d) amended and relettered effective July 28, 2017; adopted as subd (c).)

Rule 10.63 amended effective July 28, 2017; adopted effective February 20, 2014.

Advisory Committee Comment

The purpose of the Advisory Committee on Audits and Financial Accountability for the Judicial Branch is to advise and assist the council in performing its constitutional and statutory responsibilities relating to the fiscal affairs of the judicial branch. To improve the administration of the courts, article VI, section 6 of the California Constitution requires the council to survey judicial business and make recommendations. To ensure that the fiscal affairs of the courts are managed efficiently, effectively, and responsibly, Government Code section 77206 authorizes the council to regulate the fiscal management of the courts and provides for audits of the courts and Judicial Council staff by the council, its representatives, and other entities. Government Code section 77009(h) provides that the "Judicial Council or its representatives may perform audits, reviews, and investigations of superior court operations and records wherever they may be located." The Public Contract Code provides that the council shall publish a *Judicial Branch Contracting Manual* (Pub. Contract Code, § 19206). It also provides that the California State Auditor, subject to appropriations, shall biennially identify and audit five or more judicial branch entities to assess the implementation of the California Judicial Branch Contract Law (JBCL) (Pub. Contract Code, § 19210(a), (b)) and shall biennially conduct audits of Judicial Council staff to assess the implementation of, and compliance with, the JBCL (Pub. Contract Code, § 19210(c)).



2017 California Rules of Court

Rule 10.75. Meetings of advisory bodies

(a) Intent

The Judicial Council intends by this rule to supplement and expand on existing rules and procedures providing public access to the council and its advisory bodies. Existing rules and procedures provide for circulation of advisory body proposals regarding rules, forms, standards, and jury instructions for public comment, posting of written reports for the council on the California Courts website (www.courts.ca.gov), public attendance and comment during council meetings, real time audio casts of council meetings, and public posting of council meeting minutes. This rule expands public access to advisory body meetings.

(b) Advisory bodies and chairs

- (1) "Advisory bodies," as used in this rule, means any multimember body created by the Judicial Council to review issues and report to the council. For purposes of this rule, subcommittees that are composed of less than a majority of the members of the advisory body are not advisory bodies. However, standing subcommittees that are charged with addressing a topic as a continuing matter are advisory bodies for purposes of this rule irrespective of their composition.
- (2) "Chair," as used in this rule, includes a chair's designee.

(c) Open meetings

(1) Meetings

Advisory body meetings to review issues that the advisory body will report to the Judicial Council are open to the public, except as otherwise provided in this rule. A meeting open to the public includes a budget meeting, which is a meeting or portion of a meeting to discuss a proposed recommendation of the advisory body that the Judicial Council approve an allocation or direct an expenditure of public funds. A majority of advisory body members must not decide a matter included on a posted agenda for an upcoming meeting in advance of the meeting.

(2) Exempt bodies

The meetings of the following advisory bodies and their subcommittees are exempt from the requirements of this rule:

- (A) Advisory Committee on Civil Jury Instructions;
- (B) Advisory Committee on Criminal Jury Instructions; and
- (C) Litigation Management Committee.

(3) Rule committees

With the exception of any budget meetings, the meetings of the rule committees listed in this subdivision and of their subcommittees are closed unless the chair concludes that a particular agenda item may be addressed in open session. Any budget meeting must be open to the public.

- (A) Appellate Advisory Committee;
- (B) Civil and Small Claims Advisory Committee;
- (C) Criminal Law Advisory Committee;
- (D) Family and Juvenile Law Advisory Committee;

- (E) Probate and Mental Health Advisory Committee; and
- (F) Traffic Advisory Committee.

(d) Closed sessions

The chair of an advisory body or an advisory body subcommittee may close a meeting, or portion of a meeting, to discuss any of the following:

- (1) The appointment, qualifications, performance, or health of an individual, or other information that, if discussed in public, would constitute an unwarranted invasion of personal privacy;
- (2) Claims, administrative claims, agency investigations, or pending or reasonably anticipated litigation naming, or reasonably anticipated to name, a judicial branch entity or a member, officer, or employee of such an entity;
- (3) Negotiations concerning a contract, a labor issue, or legislation;
- (4) The price and terms of payment for the purchase, sale, exchange, or lease of real property for a judicial branch facility before the property has been acquired or the relevant contracts have been executed;
- (5) Security plans or procedures or other matters that if discussed in public would compromise the safety of the public or of judicial branch officers or personnel or the security of judicial branch facilities or equipment, including electronic data;
- (6) Non-final audit reports or proposed responses to such reports;
- (7) Trade secrets or privileged or confidential commercial and financial information;
- (8) Development, modification, or approval of any licensing or other professional examination or examination procedure;
- (9) Evaluation of individual grant applications; or
- (10) Topics that judicial officers may not discuss in public without risking a violation of the California Code of Judicial Ethics, necessitating recusal, or encouraging disqualification motions or peremptory challenges against them, including proposed legislation, rules, forms, standards of judicial administration, or jury instructions.

(e) Notice of meetings

(1) *Regular meetings*

Public notice must be given of the date and agenda of each meeting that is subject to this rule, whether open or closed, at least five business days before the meeting.

(2) *Urgent circumstances*

A meeting that is subject to this rule may be conducted on 24-hours notice in case of urgent circumstances requiring prompt action. The minutes of such meetings must briefly state the facts creating the urgent circumstances requiring prompt action and the action taken.

(f) Form of notice

- (1) The notice and agenda for a meeting subject to this rule, whether open or closed, must be posted on the California Courts website.
- (2) The notice for meetings subject to this rule must state whether the meeting is open or closed. If a meeting is closed or partially closed, the notice must identify the closed agenda items and the specific subdivision of this rule authorizing the closure.
- (3) For meetings that are open in part or in full, the notice must provide:
 - (A) The telephone number or other electronic means that a member of the public may use to attend the meeting;
 - (B) The time of the meeting, whether the public may attend in person, and, if so, the meeting location; and
 - (C) The e-mail address or other electronic means that the public may use to submit written comments regarding agenda items or requests to make an audio recording of a meeting.

(g) Contents of agenda

The agenda for a meeting subject to this rule, whether open or closed, must contain a brief description of each item to be considered during

the meeting. If a meeting is closed or partially closed, the agenda must identify the specific subdivision of this rule authorizing the closure.

(h) Meeting materials

Materials for an open meeting must be posted on the California Courts website at least three business days before the date of the meeting, except in extraordinary circumstances.

(i) Public attendance

The public may attend open sessions of advisory body meetings by telephone or other available electronic means. If the members of an advisory body gather in person at a single location for a meeting, the public may attend in person at that location if the chair concludes security measures permit.

(j) Conduct at meeting

Members of the public who attend open meetings in person must remain orderly. The chair may order the removal of any disorderly person.

(k) Public comment

(1) *Written comment*

The public may submit written comments for any agenda item of a regularly noticed open meeting up to one complete business day before the meeting.

(2) *In-person comment*

If security measures permit public attendance at an open in-person advisory body meeting, the meeting must include an opportunity for public comment on each agenda item before the advisory body considers the item. Requests to comment on an agenda item must be submitted before the meeting begins, indicating the speaker's name, the name of the organization that the speaker represents, if any, and the agenda item that the public comment will address. The advisory body chair may grant a request to comment on an agenda item that is received after a meeting has begun.

(3) *Reasonable limits and timing*

The advisory body chair has discretion to establish reasonable limits on the length of time for each speaker and the total amount of time permitted for public comment. The chair may also decide whether public comments will be heard at the beginning of the meeting or in advance of the agenda items.

(l) Making an audio recording of a meeting

An advisory body chair may permit a member of the public to make an audio recording of an open meeting, or the open portion of a meeting, if a written request is submitted at least two business days before the meeting.

(m) Minutes as official records

Minutes of each meeting subject to this rule, whether open or closed, must be prepared for approval at a future meeting. When approved by the advisory body, the minutes constitute the official record of the meeting. Approved minutes for the open portion of a meeting must be posted on the California Courts website.

(n) Adjourned meetings

An advisory body chair may adjourn a meeting to reconvene at a specified time without issuing a new notice under (e)(1), provided that, if open agenda items remain for discussion, notice of the adjourned meeting is posted on the California Courts website 24 hours before the meeting reconvenes. The notice must identify any remaining open agenda items to be discussed, the time that the meeting will reconvene, the telephone number that the public may use to attend the meeting, and if the public may attend the reconvened meeting in person, the location. The advisory body may not consider new agenda items when the meeting reconvenes except as permitted under (e)(2).

(o) Action by e-mail between meetings

An advisory body may take action by e-mail between meetings in circumstances specified in this subdivision.

(1) *Circumstances*

An advisory body chair may distribute a proposal by e-mail to all advisory body members for action between meetings if:

(A) The advisory body discussed and considered the proposal at a previous meeting but concluded additional information was

needed; or

(B) The chair concludes that prompt action is needed.

(2) *Notice*

If an e-mail proposal concerns a matter that otherwise must be discussed in an open meeting, the advisory body must provide public notice and allow one complete business day for public comment concerning the proposal before acting on the proposal. The notice must be posted on the California Courts website and must provide an e-mail address to which the public may submit written comments. The advisory body may forego public comment if the chair concludes that prompt action is required.

(3) *Communications*

If an e-mail proposal concerns a matter that otherwise must be discussed in an open meeting, after distribution of the proposal and until the advisory body has acted, advisory body members must restrict their communications with each other about the proposal to e-mail. This restriction only applies to proposals distributed under this subdivision.

(4) *Official record*

Written minutes describing the action taken on an e-mail proposal that otherwise must be discussed in an open meeting must be prepared for approval at a future meeting. The minutes must attach any public comments received. When approved by the advisory body, the minutes constitute the official record of the proposal. Approved minutes for such a proposal must be posted to the California Courts website. The e-mails exchanged concerning a proposal that otherwise would have been considered in a closed meeting will constitute the official record of the proposal.

(p) Review requirement

The Judicial Council will review the impact of this rule within one year of the rule's adoption and periodically thereafter to determine whether amendments are needed. In conducting its review, the council will consider, among other factors, the public interest in access to meetings of the council's advisory bodies, the obligation of the judiciary to comply with judicial ethics standards, and the public interest in the ability of advisory bodies to effectively assist the Judicial Council by offering policy recommendations and alternatives for improving the administration of justice.

Rule 10.75 adopted effective July 1, 2014.

Advisory Committee Comment

Subdivisions (a) and (c)(1). This rule expands public access to Judicial Council advisory bodies. The council recognizes the important public interest in access to those meetings and to information regarding administration and governance of the judicial branch. Meetings of the Judicial Council are open, and notice and materials for those meetings are provided to the public, under rules 10.5 and 10.6. Rules in Division 1 of Title 10 describe the council's advisory bodies and require that proposals for rules, standards, forms, and jury instructions be circulated for public comment. (See Cal. Rules of Court, rules 10.10-10.22, 10.30-10.70.) Reports to the council presenting proposals and recommendations are publicly posted on the California Courts website (www.courts.ca.gov). Internal committee chairs report at each council meeting regarding the activities of the internal committees in the period since the last council meeting, and internal committee meeting minutes also are posted on the California Courts website. This rule expands on those existing rules and procedures to increase public access by opening the meetings of advisory bodies to review issues that the advisory body will report to the council. The rule does not apply to meetings that do not involve review of issues to be reported to the council, such as meetings providing education and training of members, discussion of best practices, or sharing of information of general interest unrelated to advice or reports to the council. Those non-advisory matters are outside the scope of this rule.

Subdivision (b)(1). The definition provided in (b)(1) is intended exclusively for this rule and includes internal committees, advisory committees, task forces, and other similar multimember bodies that the council creates to review issues and report to it. (Cf. Cal. Rules of Court, rule 10.30(a) ["Judicial Council advisory bodies are typically advisory committees and task forces].)

Subdivisions (c)(2), (c)(3), and (d)(10). The Code of Judicial Ethics governs the conduct of judges and is binding upon them. It establishes high standards of conduct that judges must personally observe, maintain, and enforce at all times to promote and protect public confidence in the integrity and impartiality of the judiciary. (See Code Judicial Ethics, Preamble, canon 1, canon 2A.) Among other things, compliance with these high ethical standards means avoiding conduct that could suggest a judge does not have an open mind in considering issues that may come before the judge. (*Id.*, canon 2A.) Judges also are prohibited from making public comments about a pending or impending proceeding (*id.*, canon 3B(9)), signifying that they may not publicly discuss case law that has not reached final disposition through the appellate process, or pending or anticipated litigation, conduct that would be required to participate in the work covered by the referenced subdivisions. Ethical standards also direct that they hear and decide all matters assigned to them, avoiding extrajudicial duties that would lead to their frequent disqualification. (*Id.*, canons 3B(1), 4A(4).)

The work of the three advisory bodies listed in subdivision (c)(2) exclusively involves discussion of topics that are uniquely difficult or impossible for judges to address while honoring the detailed ethical standards governing the judiciary. For example, as required by rule, the Litigation Management Committee discusses pending or anticipated claims and litigation against judicial officers, courts, and court employees. Jury instruction committees also may discuss decisions or rulings issued in cases that have not reached final resolution through the appellate process. Thus, opening the meetings of these three committees would result in precluding judges, who are specially learned in the law, from meaningful participation on those committees. Subdivision (c)(2) is added to avoid this result.

The work of the six rule committees listed in subdivision (c)(3) almost always will trigger similar issues. Those bodies focus primarily on developing, and providing input concerning, proposed legislation, rules, forms, and standards of judicial administration. That work necessarily entails a complex interchange of views, consideration of multiple perspectives, and the vetting of opposing legal arguments, which judges cannot undertake in public without risk that their comments will be misunderstood or used as a basis for disqualification or challenge. Service on the referenced committees, and public participation in discussing the referenced topics, may make it difficult for a judge to hear and decide all matters assigned to the judge and conceivably could lead to frequent disqualification of the judge, exposing the judge to risk of an ethical violation. This may create significant practical issues for courts related to judicial workloads, while also deterring individuals specially learned in the law from serving on advisory bodies, in turn depriving the public of the benefits of their training and experience in crafting procedures for the effective and efficient administration of justice. Subdivisions (c)(3) and (d)(10) are intended to prevent such deleterious results by clarifying that meetings of the six rule committees whose work almost entirely focuses on these topics ordinarily will be closed and that meetings of other bodies performing similar functions also will be closed as the chairs deem appropriate, with the exception that any budget meetings must be open.

Subdivision (d)(7). Definitions of the terms "trade secret," "privileged information," and "confidential commercial and financial information," are provided in rule 10.500(f)(10).

Subdivision (k)(1). Due to budget constraints, members' schedules, and the geographic diversity of most committees' membership, advisory body meetings typically are held via teleconference or other method not requiring the members' in person attendance. Because judicial officer and attorney members may have limited time for meetings (e.g., only a lunch hour), the volume of advisory body business to be accomplished in those periods may be considerable, and the costs of coordinating teleconferences that would accommodate spoken comments from the public would be significant in the aggregate, the rule only provides for public comment in writing. To ensure sufficient time for advisory body staff to gather and distribute written comments to members, and for members to review comments before the meeting, the rule requires that comments be submitted one complete business day before the meeting.

[\[Back to Top \]](#)



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Informational Item #2 – (No Action Required)

Report from Audit Services

Summary:

Audit Services currently has the following audits in progress:

- Butte Superior Court
- Merced Superior Court
- Sonoma Superior Court
- Colusa Superior Court

Audit Services has authority to hire 14 full time equivalent (FTE) positions and currently has 10 positions filled (7 of which are auditor positions). The seven auditors are assigned to one of two “teams.” The Internal Review Team is based in San Francisco and primarily performs internal reviews of the Judicial Council’s programs at the request and for the sole benefit of executive management. The “Superior & Appellate Court Team” currently has four auditors (based in Sacramento) and is tasked with executing its portion of the annual audit plan.

Some internal initiatives currently pursued by Audit Services include:

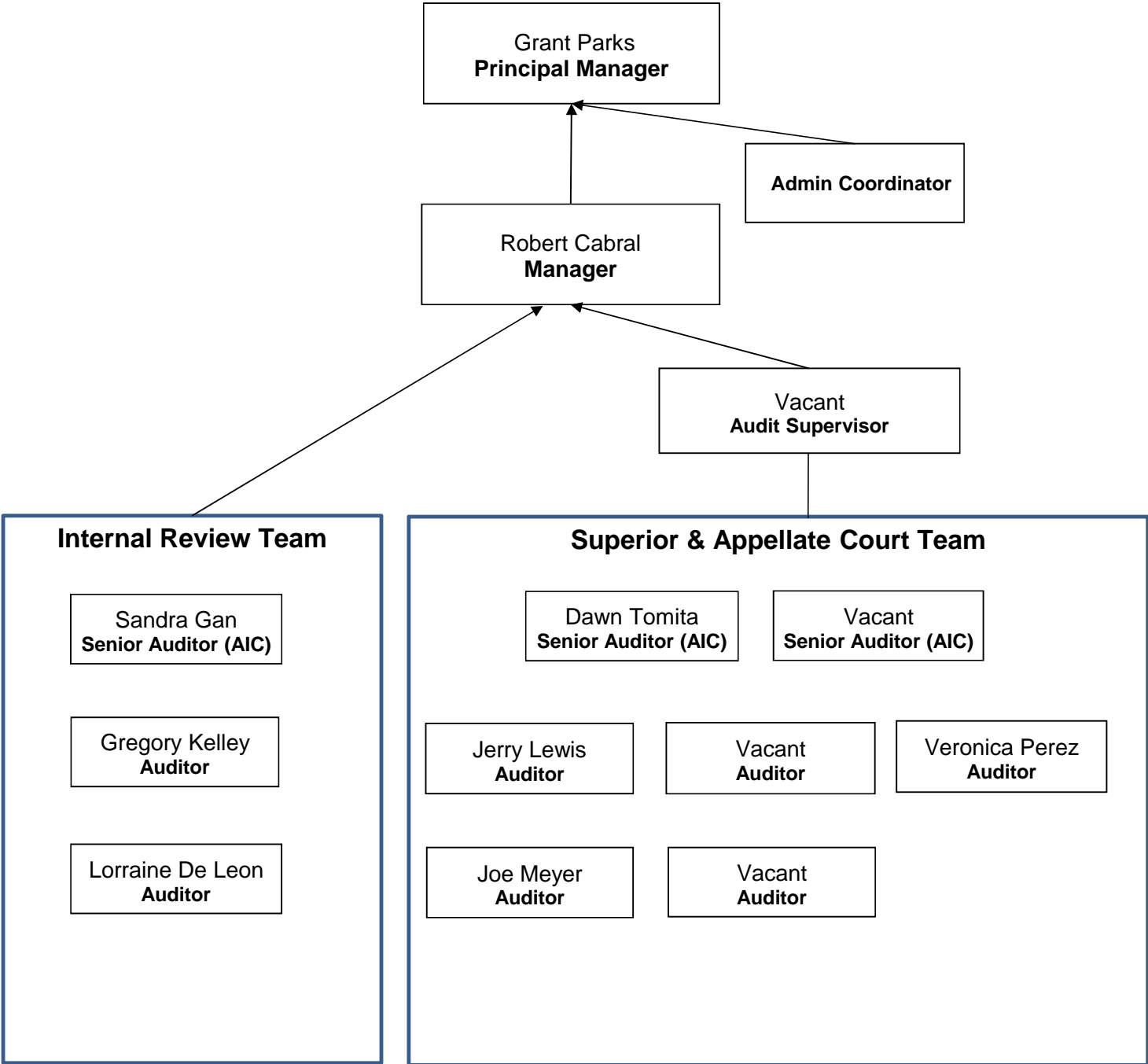
- Deployment of audit software (Pentana) to audit teams in San Francisco and Sacramento in order to gain audit efficiency.
- Hiring new auditors for the “Superior & Appellate Court Team.” Audit Services is actively recruiting for two new auditors.
- Updating Audit Services’ web page on the Judicial Resources Network so that courts can (1) have access to the annual audit plan and audit schedule; (2) review audit advisories and self-assessment checklists; and (3) learn how to submit whistleblower complaints to Audit Services.

Supporting Documents:

- Current organizational chart for Audit Services

**JUDICIAL COUNCIL OF CALIFORNIA
LEADERSHIP SERVICES DIVISION**

**AUDIT SERVICES
ORGANIZATIONAL STRUCTURE**





JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #1 – (Action Required)

Discussion and Approval of the Annual Audit Plan

Action requested:

Approve Annual Audit Plan per Rule of Court 10.63(c)(1)

Summary:

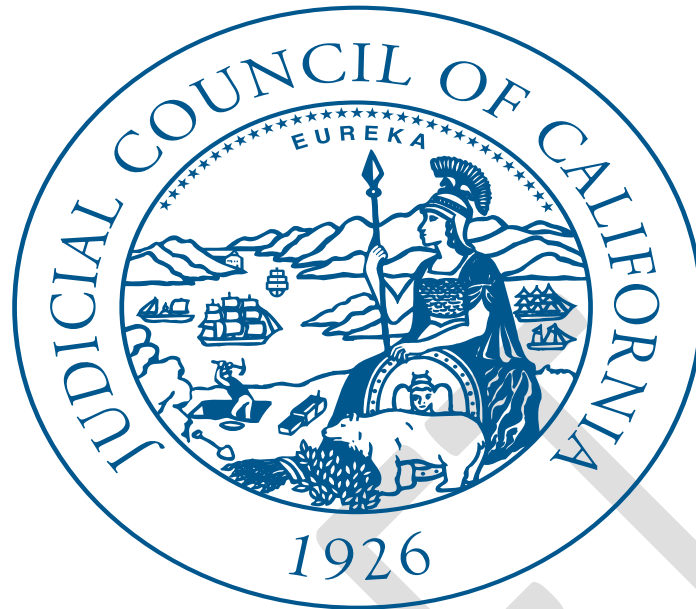
Audit Services has prepared the attached draft audit plan. The audit plan describes Audit Services' perspectives of the high-risk issues affecting the courts and how audit coverage will be achieved based on Audit Services' available staffing and related audit hours, along with the anticipated work performed by external auditors (i.e. the State Auditor and State Controller) per statutory audit requirements.

Key exhibits from the draft Audit Plan include:

- Table 1 – Areas of risk and coverage (by audit organization)
- Table 2 – Available resources and anticipated audit schedule

Supporting Documents:

- Draft Annual Audit Plan for Fiscal Year 2017-18



**JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2017 - 2018**



JUDICIAL COUNCIL
OF CALIFORNIA

LEADERSHIP SERVICES DIVISION
AUDIT SERVICES

CONTENTS

Background

- A. The Audit Committee
- B. Purpose of the Annual Audit Plan
- C. Audit Services' Role
- D. The Role of External Audit Agencies

Annual Audit Plan

- A. Risk Assessment Background
- B. Risk Areas, Assessed Level of Risk, and Auditing Entities
- C. Audit Scheduling and Available Staffing Resources
- D. Prior Court Audits

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 action 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 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, appellate courts, 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 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 appellate and superior courts to ensure the Judicial Council’s rules and policies are followed in actual practice. Audits of the superior courts often entail a review of its fiscal affairs such as, but not limited to, whether a superior court has: implemented certain mandatory internal controls over cash handling; adhered to statutory limitations on fund balance; and has procured goods and services that are consistent with “court operations” as defined by Rule of Court, rule 10.810. Audits of appellate courts focus more heavily on procurement activity given the more limited requirements imposed on their activities by the Judicial Council. Finally, Audit Services performs internal reviews of the Judicial Council as directed by the Administrative Director 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 it currently pertains to the judicial branch) are summarized below:

State Auditor – performs the following:

- Financial statement audits of the State’s *Comprehensive Annual Financial Report* (CAFR), 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 Contracting Law. [Pub. Contract Code, Section 19210]

State Controller’s Office – performs the following:

- 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]

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 of the statewide CAFR 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 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. An example of an internal control, such as the segregation of duties when handling cash, focuses on reducing the risk of the 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 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 annual reports to the Judicial Council on their fund balance, which the Judicial Council uses to evaluate a court’s compliance with state law limiting fund balance to one percent of its operating budget. Audit Services considers risk areas that cross over into more than one risk category to be generally 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 in the courts. Many of these policies were issued with the intent of establishing a minimum level of internal controls at each court in order to prevent or detect 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 reporting and compliance 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 recognizes 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 system of fundamental internal controls to enable trial courts to monitor their use of public funds, 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. 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 used its professional judgement and industry standards when identifying areas of risk (and associated risk levels) when determining the scope of its audits of the superior and appellate courts. 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 the table below. The table also reflects statutorily-mandated audits performed by the State Auditor and State Controller's Office, which further contribute to accountability and public transparency for the judicial branch. When assigning risk levels, Audit Services generally considered the complexity of the requirements in a given risk area and its likely level of importance or significance to court professionals, the public, or the Legislature. Areas designated as high risk were generally those with complex requirements (such as criminal fine and fee distributions). In other cases, high risk areas were those where the internal control requirements may not be complex but the incentives to circumvent those controls or to rationalize not having them in the first place is high (i.e. cash handling). Areas of medium risk generally included those risk areas where the complexity of the requirements were low to moderate, but the reputational risk resulting from any significant audit findings would be moderate to high.

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

Risk Area	Description of Risk	Risk Category and Level		Audit Organization		
		Reporting Risk	Compliance Risk	JCC Audit Services	State Controller's Office	State Auditor's Office
Superior Courts						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Recording of revenues, expenditures and fund balance not in accordance with state rules.	N/A	Medium		X	
Cash Handling	Court does not follow JCC internal control policies on handling cash and other forms of payment.	N/A	High	X		
Procurement Activity	Court does not adhere to the Judicial Branch Contract Law and related JCC policies 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	
Budgetary Accountability	Court submits inaccurate case filing data through JBSIS, impacting trial court budget allocations. Court holds on to more fund balance than allowed under statute and JCC policy.	High	High	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.	Medium	Medium	X		
Appellate Courts						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Procurement Activity	Court does not adhere to the Judicial Branch Contract Law and related JCC policies to maximize best value through competitive procurements.	Medium	Medium	X		X
JCC Grant Requirements	Court does not follow JCC policy or grant rules regarding how funds are to be spent, accounted for, and/or reported on with respect to performance or outcomes.	Low	Low	X		
Judicial Council						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
Financial Compliance	Recording of revenues, expenditures and fund balance not in accordance with state rules.	N/A	Medium		X	
Procurement Activity	Court does not adhere to the Judicial Branch Contract Law and related JCC policies 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		

As noted in Table 1, Audit Services' work has the potential to overlap with the work performed by the State Auditor during its court procurement audits, or with the SCO as it performs its criminal fine and fee revenue distribution audits. When planning our work at any court, Audit Services will consider recent audit activity in these areas and may reduce its audit work—such as to only verify that the court successfully took corrective action—or eliminate the planned procedures altogether if the SCO or State Auditor had no significant findings.

Audit Scheduling and Available Staffing Resources

Audit Services has two units—an Internal Review Team and a Court Audit Team—that each focus on distinct areas of work. The Court Audit Team currently consists of one senior auditor and four staff auditors (all four of which are new to the Judicial Council). The Court Audit Team is currently one team, which Audit Services anticipates splitting into two teams around the midpoint of the fiscal year once Audit Services can hire another auditor and senior auditor. The Court Audit Team's focus at each court is based on the risk areas noted in Table 1 above. The Internal Review Team has more limited staffing, with one senior auditor and two staff auditors based in San Francisco. This team focuses on performing periodic internal reviews as directed by and for the sole benefit of the Judicial Council's executive management team. The Internal Review Team also investigates whistleblower complaints and performs non-recurring or targeted reviews of multiple courts (such as the planned audits under the *Courts Innovations Grant Program*). Audit Services estimates that it has roughly 8,700 available hours for audit activities of the appellate and superior courts for fiscal year 2017-18. This translates to roughly eight court audits during the year, not including the roughly 1,800 hours the internal review team will spend auditing court activity under the *Courts Innovations Grant Program* as noted in the schedule below.

The schedule also provides insight on what audit reports are expected to come before the audit committee. For example, the State Controller's Office is performing an audit of the Judicial Council's recording of revenues, expenditures and fund balance per Government Code, Section 77206(i) and is expected to complete this work by early September. Similarly, the pilot audit of the six superior courts under Government Code, Section 77206(h) is expected to be completed in the spring. The SCO has selected two large (Sacramento and San Mateo), medium (Yolo and Sonoma), and two small courts (Amador and Tehama) for the pilot. Similarly, the Department of Child Support Services plans to audit 10 superior courts in the coming fiscal year as part of its AB 1058 grant reviews. The audit committee can also expect the State Auditor's office to perform its audit of the Judicial Council's procurement activities, with the publication expected in January 2018.

Table 2 – Available Resources and Anticipated Audit Schedule (Fiscal Year 2017-18)

	2017-18												Total
	July	August	September	October	November	December	January	February	March	April	May	June	
Working Days	21	23	21	22	22	21	23	20	22	21	23	21	260
Working Hours	168	184	168	176	176	168	184	160	176	168	184	168	2,080
JC Holidays	-8		-8	-8	-24	-8	-16	-16	-8		-8		(104)
Est. Annual Leave / Sick Leave / P.H.	-40	-40	-16		-24	-40					-40	-40	(240)
Available Hours	120	144	144	168	128	120	168	144	168	168	136	128	1,736
Administrative Time	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	(24)
Training	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	(48)
Travel	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	(240)
Non-Audit Hours	-26	-26	-26	-26	-26	-26	-26	-26	-26	-26	-26	-26	(312)
Available Audit Hours (per person)	94	118	118	142	102	94	142	118	142	142	110	102	1,424
# of Audit Staff	9	9	8	7	7	9	10	10	10	10	10	10	9.1
Available Audit Hours	846	1,062	944	994	714	846	1,420	1,180	1,420	1,420	1,100	1,020	12,966
Court Team #1	564	708	590	568	408	564	568	472	568	568	440	408	6,426
Court Team #2							426	354	426	426	330	306	2,268
Internal Review Team	282	354	354	426	306	282	426	354	426	426	330	306	4,272

	2017-18											
	July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services												
Court Team #1	Placer/Merced/Butte		Solano		Colusa		Sacramento		Ventura		Siskiyou	
Court Team #2							3rd DCA		Calaveras		San Benito	
Internal Review Team	Internal Review Projects				Court Innovations Grants				Internal Review Projects			
State Controller's office	Audit of JCC spending		Pilot audit of 6 superior courts - GC 77206(h) - [Sacramento, San Mateo, Sonoma, Yolo, Tehama, Amador]									
	Criminal Fine & Fee Revenue Distribution Audits											
State Auditor's Office	Statewide Financial Statement Audit											
	JCC Procurement Audit - PCC 19210(c)								Court Procurement Audit - PCC 19210			
Department of Child Support Services	AB 1058 Audits (10 superior courts)											

Note: The court audits scheduled in this table are subject to change based on each court's availability, Audit Services' resources, and changing audit priorities based on risk.

The timeframes shown above for Audit Services' court-specific audits are high-level estimates and are intended to depict the time between the 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 period of time—up to three weeks—to provide its official response and corrective action plan before making preparations to share the report with the audit committee.

Prior Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year’s annual audit plan. Table 3 shows all 58 superior courts, listed by the time elapsing since its previous audit. The time elapsing will always be a significant consideration for Audit Services when scheduling audits, but other factors (such as location and court size) will also be considered so as to maximize the number of audits that can be completed each year. Audit Services also tentatively plans to audit at least one appellate court each fiscal year.

Table 3 – Schedule of Previous and Planned Superior and Appellate Court Audits

Appellate / Superior Court	Date of Last Audit Report	FY 2016/17	FY 2017/18	Appellate / Superior Court	Date of Last Audit Report	FY 2016/17	FY 2017/18
1st DCA	N/A			49. Sonoma	4/1/2011		
2nd DCA	N/A			2. Alpine	7/1/2011		
3rd DCA	N/A		X	14. Inyo	7/1/2011		
4th DCA	N/A			13. Imperial	8/1/2011		
5th DCA	N/A			33. Riverside	10/1/2011		
6th DCA	N/A			43. Santa Clara	12/1/2011		
47. Siskiyou	10/1/2008		X	22. Mariposa	1/1/2012		
24. Merced	11/1/2008	IP		55. Tuolumne	2/1/2012		
56. Ventura	12/1/2008		X	26. Mono	3/1/2012		
31. Placer	9/1/2009	IP		50. Stanislaus	4/1/2012		
35. San Benito	9/1/2009		X	8. Del Norte	9/1/2012		
4. Butte	11/1/2009	IP		42. Santa Barbara	11/1/2012		
48. Solano	12/1/2009		X	27. Monterey	12/1/2012		
25. Modoc	1/1/2010			30. Orange	12/1/2012		
11. Glenn	2/1/2010			19. Los Angeles	2/1/2013		
5. Calaveras	4/1/2010		X	1. Alameda	3/1/2013		
53. Trinity	4/1/2010			23. Mendocino	7/1/2013		
34. Sacramento	5/1/2010		X	58. Yuba	8/1/2013		
38. San Francisco	5/1/2010			21. Marin	10/1/2013		
52. Tehama	6/1/2010			51. Sutter	11/1/2013		
6. Colusa	8/1/2010		X	20. Madera	6/1/2014		
41. San Mateo	9/1/2010			29. Nevada	7/1/2014		
18. Lassen	11/1/2010			17. Lake	8/1/2014		
46. Sierra	11/1/2010			40. San Luis Obispo	12/1/2014		
44. Santa Cruz	12/1/2010			36. San Bernardino	1/1/2015		
32. Plumas	1/1/2011			57. Yolo	2/1/2015		
45. Shasta	1/1/2011			54. Tulare	7/1/2015		
28. Napa	3/1/2011			16. Kings	10/1/2015		
3. Amador	4/1/2011			12. Humbolt	12/1/2015		
9. El Dorado	4/1/2011			7. Contra Costa	2/1/2016		
37. San Diego	4/1/2011			10. Fresno	6/1/2016		
39. San Joaquin	4/1/2011			15. Kern	8/1/2016		

Notes:

"IP" = In progress

"X" = Scheduled for audit in annual audit plan



JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #2 – (Action Not Required)

Committee's Annual Agenda and Open / General Discussion

Potential Action:

- Discuss parameters for developing the committee's annual agenda and meeting schedule.
- Discuss committee members' ideas for any committee initiatives or tasks to be accomplished during the year.

Summary:

The Executive and Planning Committee (E&P) oversees the Judicial Council's strategic planning process and ensures the activities of each advisory committee is consistent with the Judicial Council's goals and policies. California Rules of Court, Rule 10.11(i)(2) requires E&P to review each advisory committee's annual agenda to determine whether it is consistent with the advisory committee's charge and with the Judicial Council's priorities.

There are two time periods when E&P reviews committee agendas, either (1) at the December E&P meeting or (2) during its March or April 2018 meeting. Committee staff have attached a template of a potential annual agenda for discussion purposes.

Supporting Documents:

- Draft annual agenda document

Advisory Committee on Audits and Financial Accountability
Annual Agenda¹—2017

Approved by Executive and Planning Committee: [Date]

I. COMMITTEE INFORMATION

Chair:	Hon. David Rosenberg - Judge, Superior Court of California, County of Yolo
Lead Staff:	Grant Parks - Principal Manager, Judicial Council's Audit Services
<p>Committee's Charge/Membership: <i>Insert charge from Cal. Rules of Court, or the specific charge to the Task Force. Hyperlink rule number to courts public site. Insert total number of members and number of members by category.</i></p> <p>Rule 10.63(a) of the California Rules of Court states the charge of the Advisory Committee on Audits and Financial Accountability, which is charged with advising and assisting the Judicial Council in performing its responsibilities to ensure the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently, and in performing its specific responsibilities relating to audits and contracting, as required by law and good public policy. Rule 10.63(c) sets forth additional duties of the committee.</p> <p>The Advisory Committee on Audits and Financial Accountability currently has nine members. The attached term of services chart provides the composition of the committee.</p>	
<p>Subcommittees/Working Groups²: <i>List the names of each subcommittee or working group, including groups made up exclusively of committee/task force members and joint groups with other advisory committees/task forces. To request approval for the creation of a new subgroup, include "new" after the name of the proposed subgroup and describe its purpose.</i></p> <ol style="list-style-type: none">1. XYZ Working Group2. ABC Subcommittee3. JYF Subcommittee (<i>New</i>) – <i>Provide the charge of the subcommittee.</i>	

¹ The annual agenda outlines the work a committee will focus on in the coming year and identifies areas of collaboration with other advisory bodies and the Judicial Council staff resources.

² California Rules of Court, rule 10.30 (c) allows an advisory body to form subgroups, composed entirely of current members of the advisory body, to carry out the body's duties, subject to available resources, with the approval of its oversight committee.

II. COMMITTEE PROJECTS

#	New or One-Time Projects ³ [Group projects by priority number.]	
1.	Project Title Short and descriptive	Priority X⁴ See footnote 4
<p>Project Summary⁵: Provide a brief summary of the project and its key objective(s). Be specific about what the project entails and what it is expected to accomplish. If the proposal is for rules or forms, describe the problem to be addressed, or what the new law is and why it requires new/revised forms and/or new or amended rules of court. Origin of project may also be included [for example, is it required by statute or Judicial Council direction, did it result from a suggestion from a court, judge, or attorney; etc.].</p> <p>Status/Timeline: Include status and projected completion date, or state “Ongoing” if applicable.</p> <p>Fiscal Impact/Resources: Include JCC staff/fiscal resources, fiscal impact to JCC, trial court, etc., and other relevant resource needs.</p> <p>Internal/External Stakeholders: Include any specific JCC staff resources needed, such as Fiscal, Legal, Education, Security, etc. Also include external stakeholders and partners.</p> <p>AC Collaboration: Note any committee, task force, subcommittee/working group involvement.</p>		
2.	Project Title Short and descriptive	Priority X See footnote 4

³ All proposed projects for the year must be included on the Annual Agenda. If a project implements policy or is a program, identify it as *implementation* or a *program* in the project description and attach the Judicial Council authorization/assignment or prior approved Annual Agenda to this Annual Agenda.

⁴ For non-rules and forms projects, select priority level 1 (must be done) or 2 (should be done). For rules and forms proposals, select one of the following priority levels: 1(a) Urgently needed to conform to the law; 1(b) Urgently needed to respond to a recent change in the law; 1(c) Adoption or amendment of rules or forms by a specified date required by statute or council decision; 1(d) Provides significant cost savings and efficiencies, generates significant revenue, or avoids a significant loss of revenue; 1(e) Urgently needed to remedy a problem that is causing significant cost or inconvenience to the courts or the public; 1(f) Otherwise urgent and necessary, such as a proposal that would mitigate exposure to immediate or severe financial or legal risk; 2(a) Useful, but not necessary, to implement statutory changes; 2(b) Helpful in otherwise advancing Judicial Council goals and objectives.

⁵ A key objective is a strategic aim, purpose, or “end of action” to be achieved for the coming year.

#	New or One-Time Projects³ [Group projects by priority number.]	
	<p>Project Summary: Provide a brief summary of the project and its key objective(s). Be specific about what the project entails and what it is expected to accomplish. If the proposal is for rules or forms, describe the problem to be addressed, or what the new law is and why it requires new/revised forms and/or new or amended rules of court. Origin of project may also be included [for example, is it required by statute or Judicial Council direction, did it result from a suggestion from a court, judge, or attorney; etc.].</p> <p>Status/Timeline: Include status and projected completion date, or state “Ongoing” if applicable.</p> <p>Fiscal Impact/Resources: Include JCC staff/fiscal resources, fiscal impact to JCC, trial court, etc., and other relevant resource needs.</p> <p>Internal/External Stakeholders: Include any specific JCC staff resources needed, such as Fiscal, Legal, Education, Security, etc. Also include external stakeholders and partners.</p> <p>AC Collaboration: Note any committee, task force, subcommittee/working group involvement.</p>	
3.	Project Title Short and descriptive	Priority X See footnote 4
	<p>Project Summary: Provide a brief summary of the project and its key objective(s). Be specific about what the project entails and what it is expected to accomplish. If the proposal is for rules or forms, describe the problem to be addressed, or what the new law is and why it requires new/revised forms and/or new or amended rules of court. Origin of project may also be included [for example, is it required by statute or Judicial Council direction, did it result from a suggestion from a court, judge, or attorney; etc.].</p> <p>Status/Timeline: Include status and projected completion date, or state “Ongoing” if applicable.</p> <p>Fiscal Impact/Resources: Include JCC staff/fiscal resources, fiscal impact to JCC, trial court, etc., and other relevant resource needs.</p> <p>Internal/External Stakeholders: Include any specific JCC staff resources needed, such as Fiscal, Legal, Education, Security, etc. Also include external stakeholders and partners.</p> <p>AC Collaboration: Note any committee, task force, subcommittee/working group involvement.</p>	

#	Ongoing Projects and Activities [Group projects by priority number.]	
1.	Project Title Short and descriptive	Priority X See footnote 4
<p>Project Summary: Provide a brief summary of the project and its key objective(s). Be specific about what the project entails and what it is expected to accomplish. If the proposal is for rules or forms, describe the problem to be addressed, or what the new law is and why it requires new/revised forms and/or new or amended rules of court. Origin of project may also be included [for example, is it required by statute or Judicial Council direction, did it result from a suggestion from a court, judge, or attorney; etc.].</p> <p>Status/Timeline: Include status and projected completion date, or state “Ongoing” if applicable.</p> <p>Fiscal Impact/Resources: Include JCC staff/fiscal resources, fiscal impact to JCC, trial court, etc., and other relevant resource needs.</p> <p>Internal/External Stakeholders: Include any specific JCC staff resources needed, such as Fiscal, Legal, Education, Security, etc. Also include external stakeholders and partners.</p> <p>AC Collaboration: Note any committee, task force, subcommittee/working group involvement.</p>		
2.	Project Title Short and descriptive	Priority X See footnote 4
<p>Project Summary: Provide a brief summary of the project and its key objective(s). Be specific about what the project entails and what it is expected to accomplish. If the proposal is for rules or forms, describe the problem to be addressed, or what the new law is and why it requires new/revised forms and/or new or amended rules of court. Origin of project may also be included [for example, is it required by statute or Judicial Council direction, did it result from a suggestion from a court, judge, or attorney; etc.].</p> <p>Status/Timeline: Include status and projected completion date, or state “Ongoing” if applicable.</p> <p>Fiscal Impact/Resources: Include JCC staff/fiscal resources, fiscal impact to JCC, trial court, etc., and other relevant resource needs.</p> <p>Internal/External Stakeholders: Include any specific JCC staff resources needed, such as Fiscal, Legal, Education, Security, etc. Also include external stakeholders and partners.</p> <p>AC Collaboration: Note any committee, task force, subcommittee/working group involvement.</p>		

#	Ongoing Projects and Activities <i>[Group projects by priority number.]</i>	
3.	Project Title <i>Short and descriptive</i>	Priority X <i>See footnote 4</i>
<p>Project Summary: <i>Provide a brief summary of the project and its key objective(s). Be specific about what the project entails and what it is expected to accomplish. If the proposal is for rules or forms, describe the problem to be addressed, or what the new law is and why it requires new/revised forms and/or new or amended rules of court. Origin of project may also be included [for example, is it required by statute or Judicial Council direction, did it result from a suggestion from a court, judge, or attorney; etc.].</i></p> <p>Status/Timeline: <i>Include status and projected completion date, or state “Ongoing” if applicable.</i></p> <p>Fiscal Impact/Resources: <i>Include JCC staff/fiscal resources, fiscal impact to JCC, trial court, etc., and other relevant resource needs.</i></p> <p>Internal/External Stakeholders: <i>Include any specific JCC staff resources needed, such as Fiscal, Legal, Education, Security, etc. Also include external stakeholders and partners.</i></p> <p>AC Collaboration: <i>Note any committee, task force, subcommittee/working group involvement.</i></p>		

III. LIST OF [PREVIOUS YEAR] PROJECT ACCOMPLISHMENTS

[Provide highlights and achievements of completed projects that were included in the [Previous Year] Annual Agenda.]

#	Project Highlights and Achievements <i>[Provide brief, broad outcome(s) and completed date.]</i>
1.	
2.	
3.	
4.	
5.	

DRAFT



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #3 – (Action Required)

External Audit Report – State Auditor’s Office

Requested Action:

- Discuss the external audit report and approve its posting on the www.courts.ca.gov website per California Rules of Court, Rule 10.63(c)(1).

Summary:

Public Contract Code, Section 19210, requires the California State Auditor’s Office to audit at least five judicial branch entities (JBEs), excluding the Judicial Council, every other year in order to evaluate each’s compliance with the Judicial Branch Contract Law (sections 19201 through 19210 of the Public Contract Code). The audit often entails a review of a JBE’s procurement practices including, but not limited to, adherence to competitive bidding requirements, vendor payment procedures, and the *Judicial Branch Contracting Manual*.

In November 2016, the State Auditor’s Office issued its report on the following five JBEs.

- Riverside Superior Court
- San Diego Superior Court
- San Joaquin Superior Court
- San Mateo Superior Court
- Tehama Superior Court

The overall results of the audit were favorable. Per Table 1 on page 2 of the audit report, the State Auditor concluded that the JBE’s either fully or mostly complied with all areas evaluated during the audit. Table 3 on page 9 identified three JBEs that demonstrated some areas of weakness when following non-competitive bid requirements, such as not always obtaining proper approval for sole-source procurements. Table 4 on page 17 identified two courts as having weaknesses when

issuing payments to vendors, but focused on one court as having consistently exceed purchase card transaction limits.

The superior courts responded to the State Auditor as follows:

- Riverside – Chose not to formally respond to the audit
- San Diego – Generally agreed with no further comment
- San Joaquin – Agreed with some of the findings and provided some clarifying comments.
- San Mateo – Generally agreed with some clarifying comments
- Tehama – Generally agreed with some clarifying comments

Audit Services will consider the results of this audit when performing its next audit at these courts. Committee staff recommends that the audit committee approve the public posting of this audit report on www.courts.ca.gov per ROC 10.63(c)(1).

Supporting Documents:

- California State Auditor's Report #2016-301: *Judicial Branch Procurement: The Five Superior Courts We Reviewed Mostly Adhered to Required and Recommended Practices, but Some Improvements Are Needed* (November 2016)



Judicial Branch Procurement

The Five Superior Courts We Reviewed
Mostly Adhered to Required and Recommended
Practices, but Some Improvements Are Needed

Report 2016-301

COMMITMENT
INTEGRITY
LEADERSHIP



CALIFORNIA STATE AUDITOR

621 Capitol Mall, Suite 1200 | Sacramento | CA | 95814



916.445.0255 | TTY 916.445.0033



For complaints of state employee misconduct,
contact us through the **Whistleblower Hotline:**

1.800.952.5665

Don't want to miss any of our reports? Subscribe to our email list at

auditor.ca.gov



November 16, 2016

2016-301

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

Dear Governor and Legislative Leaders:

As required by Chapter 31, Statutes of 2013, the California State Auditor presents this audit report assessing five superior courts' compliance with the requirements of the California Judicial Branch Contract Law (judicial contract law), Public Contract Code sections 19201 through 19210. The judicial contract law requires the Judicial Council of California to adopt and publish a *Judicial Branch Contracting Manual* (judicial contracting manual), which establishes the requirements and recommended practices for procurement and contracting that all judicial branch entities, including superior courts, must follow.

For the five courts we reviewed for this audit—the superior courts of Riverside, San Diego, San Joaquin, San Mateo, and Tehama counties—we found fewer instances of the courts not adhering to procurement processes compared to the superior courts reviewed in our past two procurement audits. The Riverside and San Diego courts consistently adhered to the required and recommended practices in the judicial contracting manual, while the other three courts had some shortcomings in following these guidelines. For example, the three courts did not always follow the recommended practice of determining if prices were fair and reasonable for noncompetitive contracts. In other cases, the San Joaquin, San Mateo, and Tehama courts did not document why they did not use a competitive process for some contracts. Finally, the San Joaquin and San Mateo courts did not consistently make sure that goods and services were received before issuing payments.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Blank page inserted for reproduction purposes only.

CONTENTS

Summary	1
Introduction	5
Three of the Five Superior Courts Could Improve Their Contracting Practices	9
Two of the Five Superior Courts Had Some Weaknesses in Their Processing of Vendor or Purchase Card Payments	17
Scope and Methodology	21
Responses to the Audit	
The Superior Court of San Diego County	25
The Superior Court of San Joaquin County	27
California State Auditor's Comments on the Response From the Superior Court of San Joaquin County	31
The Superior Court of San Mateo County	33
The Superior Court of Tehama County	35

Blank page inserted for reproduction purposes only.

SUMMARY

The State's 58 superior courts are required to follow state law and the policies of the Judicial Council of California (Judicial Council) when making purchases of goods and services and processing payments.¹ This is the third audit we have performed of the procurement processes of California superior courts. For the five courts we reviewed for this audit—the superior courts of Riverside, San Diego, San Joaquin, San Mateo, and Tehama counties—we found fewer instances of the courts not adhering to procurement processes compared to the superior courts reviewed in our past two procurement audits. Our review found that while these courts largely complied with contract and payment requirements and guidelines, three of them could make improvements. The Riverside and San Diego courts consistently adhered to these requirements and recommended practices.

The following are the key conclusions discussed in this report:

Three of the five superior courts could improve their contracting practices.

Page 9

The San Joaquin, San Mateo, and Tehama courts did not consistently follow the guidelines in the *Judicial Branch Contracting Manual* (judicial contracting manual), particularly in regard to noncompetitive contracts. Notably, the three courts did not always determine whether the price they paid for goods and services was fair and reasonable as the judicial contracting manual recommends for certain noncompetitive contracts. In addition, these three courts sometimes failed to explain why they had entered into contracts without using a competitive process. In contrast, the Riverside and San Diego courts followed state laws and the Judicial Council's contract guidelines more strictly.

Two of the five superior courts had some weaknesses in their processing of vendor or purchase card payments.

Page 17

The San Joaquin and San Mateo courts did not always appropriately approve or verify that goods or services were received before paying for them. Further, San Joaquin court routinely exceeded the judicial contracting manual's \$1,500 limit for purchase card transactions without explaining the necessity for exceeding the limit. Also, in fiscal year 2015–16 the San Mateo court spent \$4,000 on bottled water for its employees, which is unallowable under state procurement rules. In contrast, payments we tested for the Riverside, San Diego, and Tehama courts were processed according to the judicial contracting manual and their internal control processes.

¹ In July 2014, the Judicial Council voted to retire the name *Administrative Office of the Courts* for its staff agency; however, state law continues to use this name.

Table 1 provides a summary of the results of our review of procurement practices related to contracts—both competitive and noncompetitive—and payments at the five superior courts we audited.

Table 1
Overall Level of Compliance With Required and Recommended Practices

COUNTY SUPERIOR COURT	PROCUREMENTS		PAYMENTS	
	COMPETITIVE	NONCOMPETITIVE	TO VENDOR	WITH PURCHASE CARD
Riverside	■	■	■	■
San Diego	■	■	■	■
San Joaquin	■	■	■	■
San Mateo	■	■	■	*
Tehama	■	■	■	*

Source: California State Auditor's analysis of procurements and payments at five superior courts.

Level of Compliance With Required and Recommended Practices

■ = Complied with all

■ = Complied with most

* Court had less than our threshold for testing purchase card payments.

The Judicial Council has implemented contract and payment requirements and recommended practices to ensure that state judicial branch entities—in this instance, superior courts—make the best use of public funds when purchasing and paying for goods and services. When superior courts do not follow these requirements and recommended practices, they increase the risk that they will overpay for goods or services, or that they will make unauthorized or unallowed payments. Moreover, the courts undermine the integrity of the competitive procurement process when they bypass the competitive process without adequate justification.

Summary of Recommendations

The San Joaquin, San Mateo, and Tehama courts should determine whether pricing for noncompetitive contracts is fair and reasonable, when applicable.

The San Joaquin, San Mateo, and Tehama courts should consistently retain in contract files their justification for entering into contracts that they have not competitively bid.

The San Joaquin and San Mateo courts should ensure that their staff follow the courts' payment approval policies.

The San Joaquin court should implement a process to ensure that its staff adheres to its policy for exceeding the \$1,500 per-transaction limit for purchase cards, and the San Mateo court should cease purchasing bottled water for employees.

Agency Comments

Three superior courts agreed with our findings and recommendations. However, the San Joaquin court did not agree with the basis of two of our recommendations. Finally, the Riverside court chose not to respond.

Blank page inserted for reproduction purposes only.

INTRODUCTION

The California Judicial Branch Contract Law

The California Judicial Branch Contract Law (judicial contract law) went into effect in 2011. It requires all judicial branch entities² to comply with the provisions of the Public Contract Code that are applicable to state agencies for procurements of goods and services. As required by the judicial contract law, the Judicial Council has adopted and published the judicial contracting manual, which establishes the requirements and recommended practices for procurement for all judicial branch entities. In addition, each judicial branch entity is required to adopt a local contracting manual containing local procurement rules that its staff is to follow.

Further, judicial contract law directs the California State Auditor (State Auditor) to audit five judicial branch entities, other than the Judicial Council, to assess the implementation of the judicial contract law. We are to conduct this audit every two years, beginning on or before July 1, 2014. Over the past four years, the State Auditor issued two audits that included 11 of the State’s 58 superior courts, and we found weaknesses in internal controls over procurement processes for all 11 of those superior courts. For this audit, we selected the superior courts of Riverside, San Diego, San Joaquin, San Mateo, and Tehama counties. Our decision to select courts for audit is based on factors such as the size of the court, total volume of contracts, previous audits or known deficiencies, and significant or unusual changes in the court’s management. In this and previous audits, we have considered only courts that we have not already audited, and we will continue to do so unless we become aware of circumstances that would warrant a review of a previously audited court. Table 2 provides the relative size and workload data of the five superior courts we selected for this audit.

Table 2
Relative Sizes and Workload Data for Five County Superior Courts

	COUNTY SUPERIOR COURT				
	RIVERSIDE	SAN DIEGO	SAN JOAQUIN	SAN MATEO	TEHAMA
County population, July 2015	2,361,000	3,300,000	726,000	765,000	63,000
County area in square miles	7,206	4,207	1,391	448	2,950
Expenditures, fiscal year 2015–16	\$149,449,000	\$181,108,000	\$39,212,000	\$44,436,000	\$5,038,000
Procurement payments, fiscal year 2015–16	\$24,789,000	\$35,407,000	\$4,434,000	\$5,263,000	\$880,000
Case filings, fiscal year 2015–16	368,000	471,000	116,000	134,000	17,000
Judges, authorized positions	62	134	29	26	4
Support staff, authorized positions	1,094	1,303	321	283	45

Sources: U.S. Census Bureau, the Judicial Council of California’s 2015 *Court Statistics Report*, and the superior courts.

Note: Data in this table are unaudited and rounded.

² According to the judicial contract law, a judicial branch entity is any superior court, court of appeal, the California Supreme Court, the Judicial Council, and the Habeas Corpus Resource Center.

The Judicial Contracting Manual

The judicial contract law requires that the provisions of the judicial contracting manual be substantially similar to those of the *State Administrative Manual* and the *State Contracting Manual* and consistent with the Public Contract Code. The *State Administrative Manual* provides general fiscal and business policy guidance to state agencies, while the *State Contracting Manual* provides more specific guidance in the areas of procurement and contract management. The Public Contract Code contains competitive bidding requirements that state agencies must comply with, among other provisions. The purpose of these requirements is to provide all qualified bidders with a fair opportunity to enter the bidding process and to eliminate favoritism, fraud, and corruption in the awarding of public contracts. In addition to establishing procurement requirements, the judicial contracting manual contains some provisions that it recommends that courts perform. Although these provisions are not required, the courts should follow them unless they have a compelling reason for doing otherwise.

Types of Allowable Noncompetitive Procurements

- Purchases under \$5,000
- Emergency purchases
- Purchases from government entities
- Legal services
- Certain leveraged procurement agreements
- Purchases from a business entity operating a community rehabilitation program
- Licensing or proficiency testing examinations
- Subvention and local assistance contracts
- Sole-source procurements

Source: July 2015 *Judicial Branch Contracting Manual*.

Like the Public Contract Code, the judicial contracting manual generally requires judicial branch entities to secure competitive bids or proposals for each contract, with certain exceptions, as shown in the text box.³ For example, the judicial contracting manual exempts contracts of less than \$5,000 from competitive bidding requirements so long as the court determines that the price is fair and reasonable. Further, the State's procurement rules do not require competitive bids when a contract is necessary for the immediate preservation of public health or when the contract is with a state agency or other local government entity, rules that the judicial contracting manual also includes.

Finally, two types of noncompetitive procurements that the judicial contracting manual allows and that judicial branch entities commonly

³ The word *contracts*, as used in this report and described in the judicial contracting manual, can generally refer to several types of formal agreements for procuring goods and services, such as a formal contract or a purchase order.

use are *sole-source procurements* and *leveraged procurement agreements*. A procurement with a specific vendor that is secured without bidding is a sole-source procurement, as described in the text box.

Leveraged procurement agreements are used to purchase goods and services from certain vendors at agreed-upon prices, without having to seek competitive bids, as described in the text box. The Department of General Services and other state agencies enter into various types of leveraged procurement agreements, including master service agreements and California Multiple Awards Schedules, to consolidate the needs of multiple state agencies and to leverage the State’s buying power when purchasing commonly needed goods and services. The judicial contracting manual includes a process for using and establishing leveraged procurement agreements, but it also recommends that judicial branch entities consider whether they can obtain better pricing or terms by negotiating with the vendor or by soliciting competitive bids.

Sole-Source Procurement

A procurement in which either a specific vendor’s goods or services are the only goods or services that will meet a court’s needs or a grant application submittal deadline does not allow the time necessary for a competitive procurement. However, before a court enters a sole-source procurement it must request use of a sole source and the request must be approved by an appropriate court authority. Also, the request should include the following information:

- Description of the goods and services to be procured.
- Explanation of why the goods and services cannot be procured competitively.
- The effort made to solicit competitive bids, if any.
- Documentation that the pricing offered is fair and reasonable.
- Special factors affecting the cost or other aspect of the procurement, if any.

Source: July 2015 *Judicial Branch Contracting Manual*.

Leveraged Procurement Agreement

An agreement that allows multiple entities to make purchases in order to take advantage of their combined buying power to reduce prices, improve terms and conditions, or improve procurement efficiency when buying commonly needed goods and services. The *Judicial Branch Contracting Manual* recommends determining whether pricing is fair and reasonable when using a leveraged procurement agreement because the courts may be able to obtain better prices by negotiating directly with the vendor or by conducting a competitive procurement.

Examples of goods and services typically covered under leveraged procurement agreements:

- Office supplies
- Computer equipment
- Telecommunication service
- Case management software
- Armored car service

Source: July 2015 *Judicial Branch Contracting Manual*.

Blank page inserted for reproduction purposes only.

Three of the Five Superior Courts Could Improve Their Contracting Practices

Main Points:

- The Riverside and San Diego courts had strong internal controls and followed required procurement procedures and recommended practices for both competitively bid and noncompetitive contracts.
- The San Joaquin, San Mateo, and Tehama courts did not always follow applicable requirements and recommended practices when entering into noncompetitive contracts. For example, these three courts did not always ensure that the prices they received for noncompetitive contracts were fair and reasonable.

Because three of the courts we reviewed did not always follow Judicial Council and state procurement requirements and recommended practices when entering into contracts, they may not be making the best use of public funds. For instance, receiving proper approval for contracts promotes responsible stewardship of public funds by ensuring multiple levels of review. Additionally, evaluating prices from other vendors, even when a contract will follow a noncompetitive process, is a recommended practice for ensuring that the court is obtaining the best value possible when purchasing goods and services. Table 3 summarizes our review of key procurement requirements and recommended practices for the 12 contracts, which include both competitively bid and noncompetitive contracts, that we reviewed at each of the five superior courts.

Table 3
Summary of Key Procurement Findings at Five County Superior Courts

COUNTY SUPERIOR COURT	COMPETITIVE			NONCOMPETITIVE			ALL		
	ADVERTISED, WHEN REQUIRED	OPEN TO BID	KEY ELEMENTS INCLUDED IN SOLICITATION FOR BID	PRICE DETERMINED TO BE FAIR AND REASONABLE	NONCOMPETITIVE EXPLANATION INCLUDED	SOLE-SOURCE REQUEST APPROVED	PROCUREMENT INCLUDED APPLICABLE KEY ELEMENTS	APPROVED BY APPROPRIATE COURT OFFICIAL	ALLOWABLE GOODS OR SERVICES
Riverside	4 of 4	4 of 4	4 of 4	4 of 4	6 of 6	*	10 of 10	10 of 10	10 of 10
San Diego	4 of 4	4 of 4	4 of 4	6 of 6	6 of 6	2 of 2	11 of 11	11 of 11	11 of 11
San Joaquin	2 of 2	3 of 3	3 of 3	5 of 8	5 of 9	2 of 6	11 of 12	12 of 12	12 of 12
San Mateo	2 of 2	3 of 3	3 of 3	2 of 3	6 of 7	1 of 1	10 of 10	10 of 10	10 of 10
Tehama	1 of 1	1 of 1	1 of 1	3 of 7	6 of 8	2 of 4	9 of 10	9 of 10	10 of 10

Sources: California State Auditor's analysis of procurements at five superior courts.

Level of Compliance With Required and Recommended Practices

- = Complied with all
- = Complied with most
- = Complied with 50 percent
- = Complied with fewer than 50 percent

Note: Not all key competitive and noncompetitive procurement elements in the table apply to every procurement we tested. For example, all competitive procurements must be open to bid; however, non-information technology goods procurements of \$50,000 or less are not required to be advertised. Also, for only four of the nine types of noncompetitive procurements does the *Judicial Branch Contracting Manual* either require or recommend that courts determine whether the price to be paid is fair and reasonable.

* Our selection of contracts for testing at the Riverside court did not encounter any sole-source procurements.

The Riverside and San Diego Courts Consistently Followed Procurement Procedures

All contracts—both competitive and noncompetitive—that we tested at the Riverside and San Diego courts followed applicable procurement procedures. For example, the judicial contracting manual suggests that contracts typically consist of three major elements: a statement of work, including the schedule of performance; pricing and payment; and other terms and conditions. The contracts of both courts that we tested consistently had those three elements. Additionally, all procurements that we reviewed were approved by authorized individuals and had contract managers assigned to oversee the delivery of the procured goods and services. Unlike the other courts we reviewed, the Riverside and San Diego courts consistently provided justification for noncompetitive contracts and determined that the prices of goods and services received under these contracts were fair and reasonable, when applicable. Further, both courts used a procurement summary to document the timeline and justification for each procurement. This summary helped the courts ensure that they procured the goods or services in compliance with the judicial contracting manual by including vendor selection information, the determination that the price paid was fair and reasonable, the type of solicitation used, and notes describing the decision-making process during the procurement. We found that the summary the Riverside and San Diego courts used are sufficiently comprehensive and detailed, and thus they served as an effective control to ensure that the courts appropriately perform procurement activities.

The San Joaquin Court Did Not Consistently Follow Procedures for Noncompetitive Contracts, Particularly in Regard to Sole-Source Procurements

The San Joaquin court followed judicial contracting manual requirements and recommended practices for competitive contracts, but it entered into several contracts that we reviewed without competitive bidding and without a written explanation or approval for bypassing the competitive procurement process. The judicial contracting manual allows for a noncompetitive, sole-source procurement if goods or services cannot be procured competitively. Such a procurement is referred to as a *sole-source contract*. If a court designates a contract as being sole source, the judicial contracting manual recommends that it explain why it could not obtain the goods or services through a competitive procurement. Further, the judicial contracting manual states that the court must obtain proper approval from its management

for using a sole-source procurement. Six of the 12 contracts we reviewed at the San Joaquin court were sole source. As Table 3 on page 9 shows, although the San Joaquin court completed a sole-source request and obtained proper approval for the request from the court executive officer for two of these six contracts, it did not do so for the remaining four contracts.

For example, the San Joaquin court entered into a three-year contract, valued at \$375,000, for mail-processing services without a competitive bid. The court's business services manager told us he believed that competitively bidding this contract was unnecessary because the court conducted a price comparison that determined that the selected vendor was offering the lowest price and it could provide certain services that the previous vendor could not perform. Although the judicial contracting manual recommends that the sole-source request include documentation that the pricing offered is fair and reasonable, it also recommends other information be included—such as an explanation why the good or service cannot be procured competitively. The judicial contracting manual has these provisions in place to ensure fairness and to prevent favoritism in contracting.

In another of these contracts, the San Joaquin court entered into a blanket purchase order for \$27,000 to buy copier toner without competitive bidding. The text box describes blanket purchase orders. The business services manager stated that the San Joaquin court used a blanket purchase order because this contract for copier toner is a repeated purchase and because the vendor provides a recycled toner that is of a quality that works well on the court's printers. However, using a blanket purchase order as a sole-source contract without justification and proper approval resulted in the court inappropriately bypassing the competitive procurement process for this purchase. Finally, the two other contracts involved software services that the San Joaquin court asserted only existing vendors could provide. Because the San Joaquin court did not go through the recommended steps necessary to justify these four contracts as sole-source procurements, it did not have the required approval for bypassing the competitive procurement process, nor did it justify its decision not to procure the goods or services competitively.

In addition, for three of the unapproved sole-source contracts, the San Joaquin court did not determine whether the prices it paid were fair and reasonable, as the judicial contracting manual recommends

Blanket Purchase Order

A type of contract that is generally used for repetitive or high-volume, low-dollar-value purchases and low-risk services. The contract establishes the following:

- A set period of time for its use, typically a fiscal year, to ensure that the contract has an end date.
- A specified maximum dollar amount to make sure the court does not exceed this amount.

Source: Materials Management Module Job Aid from the Judicial Branch's Phoenix Financial System.

Best Practices for Determining Whether a Price Is Fair and Reasonable for Procurements

Although the following practices are not required, they are recommended by the *State Contracting Manual* to ensure that the buyer obtains the best possible price.

- Perform a price comparison.
- Use prices from an established catalog or market pricing media.
- Use prices set by law or regulation.
- Use historical pricing.
- Work with an experienced buyer who knows that the price is fair and that the cost of verification would exceed any benefit.

Source: Department of General Services' *State Contracting Manual*, Volume 2.

for sole-source and other noncompetitive contracts. The text box lists best practices for determining fair and reasonable pricing as set forth in the *State Contracting Manual*. For these three contracts, the San Joaquin court claimed that it did not perform a price comparison because the services it required were not available from other vendors. Despite this assertion, the *State Contracting Manual* describes methods, as shown in the text box, for determining that the pricing was fair and reasonable.

Finally, the San Joaquin court made a purchase through a leveraged procurement agreement without identifying all key contract elements specified in the judicial contracting manual and required by the agreement's participating addendum. Specifically, for this purchase of multifunction copiers and related software, San Joaquin court did not complete a purchase order with the agreed upon rental term, type, and

pricing. By not preparing a purchase order, San Joaquin court risks purchasing goods for purposes that are unclear or undefined.

The San Mateo Court Followed Procurement Policies but Did Not Follow Certain Recommended Practices for Two Noncompetitive Contracts

The San Mateo court followed judicial contracting manual requirements and recommended practices for competitive contracts but did not determine whether the price was fair and reasonable for one of the three noncompetitive contracts requiring such a determination that we reviewed at the court. This instance involved the use of a leveraged procurement agreement. Specifically, when a court is considering whether to use a leveraged procurement agreement, the judicial contracting manual recommends determining whether the pricing is fair and reasonable, because the price under a leveraged procurement agreement might not reflect volume discounts available from the vendor. Thus, the court might obtain better pricing by negotiating directly with the vendor or by performing price comparisons with other vendors.

However, the San Mateo court entered into a contract for armored car services in the amount of \$3,700 under a leveraged procurement agreement without obtaining price comparisons from other suppliers to determine if the vendor was providing this service at a fair and reasonable price. In response to our inquiry, the senior accountant/buyer asserted that there was no need to determine

fair and reasonable pricing and cited the section of the judicial contracting manual allowing courts to procure goods and services using a leveraged procurement agreement without having to conduct competitive bidding. However, the court's response fails to acknowledge that the judicial contracting manual recommends that the court negotiate with the vendor in an effort to obtain better pricing when it uses leveraged procurement agreements. Without conducting such negotiations, the San Mateo court cannot know if it is getting the best price for goods and services purchased through a leveraged procurement agreement.

Finally, for another noncompetitive contract, the San Mateo court did not have adequate reasons for its procurement of the contract without competitive bidding. Specifically, this contract valued at more than \$10,000 wherein a contractor would conduct landlord/tenant clinics and be a clinic advisor for an unlawful detainer settlement conference, San Mateo court officials stated that it was exempt from competitive bidding because the contract was for legal services. However, although possibly implied, nowhere in the contract does it explicitly state that the contractor is providing legal advice or acting in the capacity as an attorney. As a result, it is not apparent that the contract was for legal services. Without clearly explaining in the contract or in the contract file why a contract is exempt from competitive bidding or specifically stating the type of noncompetitive contract, the court runs the risk of entering into contracts that should have been competitively bid.

.....

San Mateo court did not have adequate reasons for its procurement of a contract without competitive bidding.

.....

The Tehama Court Did Not Consistently Follow Procedures for Noncompetitive Contracts, Particularly Regarding Fair and Reasonable Pricing

The Tehama court followed judicial contracting manual requirements and recommended practices for one competitive contract that we selected for review, but it determined the fair and reasonable price for only three of seven noncompetitive contracts that were recommended to have such an evaluation. Again, as noted previously, the judicial contracting manual recommends determining whether a price is fair and reasonable when entering into some noncompetitive contracts. Depending on the

circumstance, the court executive officer explained that the court did not perform price comparisons, comparisons were not possible, or the price comparison was informal on these four contracts.

Further, although the Tehama court explained its use of a noncompetitive procurement for six of the eight noncompetitive contracts we reviewed, the remaining two had no explanation or proper approval. For instance, in January 2016, the Tehama court entered into a support agreement valued at \$54,500 with the vendor that had provided its existing case management system. In response to our inquiry, the court executive officer explained that the court could not procure these services from another vendor. In another case involving a long-standing contract for storage units valued at more than \$7,000 a year, the court executive officer stated that the court performed an informal cost comparison and determined that the current vendor provides storage at the most affordable cost. The court executive officer's explanations for both of these instances appear to be reasonable, but the court did not include them in the contract files to justify the use of sole-source contracts nor did it obtain the prior approval required of sole-source contracts. Doing so formalizes the court's decisions to use sole-source contracts and creates transparency, thereby reducing the perception that its purchasing decisions are arbitrary or favor certain vendors.

Tehama court explained its use of a noncompetitive procurement for six of eight noncompetitive contracts—the remaining two had no explanation or proper approval.

Finally, for an annual information technology maintenance contract valued at \$10,000, Tehama court did not ensure that key elements were included in the contract and that an appropriate court official approved the contract. When we asked the court for the purchase order for this service, it could only provide us an accounting entry document, which did not indicate the terms and conditions of the contract or contain approval for the contract.

Recommendations

The superior courts we reviewed should follow the requirements and recommended practices of the Judicial Council and the State to ensure that they obtain the best value for the goods and services purchased through contracts they enter into by doing the following:

- The San Joaquin, San Mateo, and Tehama courts should follow the recommended process for applicable noncompetitive procurements to ensure that vendors' prices are fair and reasonable.
- The San Joaquin, San Mateo, and Tehama courts should follow the judicial contracting manual's recommendations for procurement processes, and they should provide and consistently retain in contract files their justifications for entering into contracts that they have not competitively bid.
- The San Joaquin and Tehama courts should ensure that contracts include all required elements and are properly approved.

Blank page inserted for reproduction purposes only.

Two of the Five Superior Courts Had Some Weaknesses in Their Processing of Vendor or Purchase Card Payments

Main Points:

- The Riverside, San Diego, and Tehama courts processed all of the vendor payments we tested in accordance with judicial contracting manual requirements and recommended practices as well as their internal control procedures. However, the San Joaquin and San Mateo courts did not consistently ensure that vendor payments were properly approved or that they made payments to vendors only after ensuring that the goods or services purchased were actually received.
- The Riverside and San Diego courts properly managed their staff’s use of purchase cards to buy goods. However, the staff of the San Joaquin court routinely did not follow its local policy for making purchases with its purchase cards that exceeded the limit of \$1,500 per transaction. We did not test the purchase card payments for two courts—San Mateo and Tehama—because their total payments made through purchase cards did not meet our threshold for review.

Following proper internal controls over the processing of payments is critical for ensuring that courts use public funds appropriately. When courts make payments without proper approval or without verifying that goods or services were received, it increases the likelihood of improper expenditures, which puts public funds at risk. Moreover, because courts provide purchase cards so individuals can make purchases directly from vendors, the cards are subject to abuse if the courts do not strictly oversee their use. Table 4 summarizes our review of key procurement requirements and recommended practices for the 24 payments—18 made to vendors and six made on purchase cards—that we reviewed at each of the superior courts.

Table 4
Summary of Key Payment Findings at Five County Superior Courts

COUNTY SUPERIOR COURT	TO VENDOR				WITH PURCHASE CARD			
	INVOICE APPROPRIATELY APPROVED	GOODS OR SERVICES WERE RECEIVED	PERSON ENTERING INVOICE INTO ACCOUNTING SYSTEM IS NOT THE PERSON ISSUING PAYMENT	GOOD OR SERVICE ALLOWABLE	PURCHASE IS WITHIN SINGLE TRANSACTION LIMIT	BUYER IS AUTHORIZED TO USE PURCHASE CARD	RECEIPT FOR ITEM PURCHASED	GOOD OR SERVICE ALLOWABLE
Riverside	18 of 18	18 of 18	18 of 18	18 of 18	6 of 6	6 of 6	6 of 6	6 of 6
San Diego	18 of 18	18 of 18	18 of 18	18 of 18	6 of 6	6 of 6	6 of 6	6 of 6
San Joaquin	18 of 18	17 of 18	18 of 18	18 of 18	0 of 6	6 of 6	6 of 6	6 of 6
San Mateo	17 of 18	17 of 18	18 of 18	17 of 18	None Tested*			
Tehama	18 of 18	18 of 18	18 of 18	18 of 18	None Tested*			

Sources: California State Auditor’s analysis of vendor and purchase card payments at five superior courts.

Level of Compliance With Required and Recommended Practices

- = Complied with all
- = Complied with most
- = Complied with fewer than 50 percent

* Court had less than our threshold for testing of purchase card payments.

The Riverside, San Diego, and Tehama Courts Appropriately Executed Their Payments

All the vendor payments that we reviewed at the Riverside, San Diego, and Tehama courts were processed in accordance with the judicial contracting manual and each court's own internal controls. For example, these three courts consistently ensured that an authorized individual approved invoices for payment, that the courts received the goods and services purchased, and that all purchases were for allowable goods or services. Because of these three courts' strong controls and processes, we found that they executed the payment of state funds appropriately. Furthermore, for the six purchase card payments that we tested, the San Diego and Riverside courts made purchases that were within the per-transaction limit set in their respective local contracting manual, allowed only authorized buyers to use the purchase cards, retained receipts for all purchases, and purchased only allowable goods.

Although the San Joaquin Court Generally Processed Vendor Payments Appropriately, It Consistently Exceeded Purchase Card Transaction Limits

Our review determined that the San Joaquin court appropriately processed almost all of the vendor payments that we tested. However, it approved one payment, for the purchase of bottled water for jurors, without ensuring that the amount of water that the vendor included on the invoice was the actual amount that the court received. The San Joaquin court purchased bottled water and related items for the exclusive use of jurors, an allowed expenditure, at a cost of more than \$8,000 for fiscal year 2015–16. According to the business services manager, the court's failure to verify the amount of water received was an oversight. As a result, the San Joaquin court ran the risk of being overcharged for the water.

The San Joaquin court also had weaknesses in its processing of payments made with purchase cards. All six purchase card payments we tested exceeded the limit of \$1,500 per transaction set by the judicial contracting manual. These payments ranged from \$1,795 to \$2,500. However, the judicial contracting manual allows courts to establish alternative procedures to the \$1,500 limit. As such, the court has a written policy that allows staff members to make purchases of more than \$1,500 if they obtain prior approval and if they explain the necessity to exceed the \$1,500 limit. Although five of the payments had prior approval by the chief financial officer or the chief executive officer, one payment did not have documented prior approval and none included

the required explanation. Thus, none of the six purchase card transactions complied with the court's policy when exceeding the \$1,500 purchase card limit. The San Joaquin court believes that the authorization signature of either officer indicates that court management has provided a valid reason for exceeding the \$1,500 limit. However, a signature is clearly not an explanation. By not following its written policy, the court increases the risk that its staff is using purchase cards inappropriately.

The San Mateo Court Processed Two Payments Without Proper Approval or Evidence That the Goods or Services Were Received, and Also Made an Unallowed Purchase

The San Mateo court processed most of the 18 vendor payments we reviewed in accordance with applicable policies and procedures, but it made missteps in the handling of three payments. Specifically, one of the payments we tested lacked proper approval. In this instance, the court processed a payment of \$40,000 for mediation services without approval from any of the court's three top officers—the presiding judge, court executive officer, or finance director—which it requires for all payments of \$25,000 or more. The deputy court executive officer acknowledged that the missing approval on the \$40,000 payment was an oversight. In another instance, the San Mateo court made a payment of \$3,000 for office supplies without verifying that they were all received. The budget analyst indicated that the court does not have a written policy that requires department managers to sign off on packing slips; however, the Judicial Council's *Trial Court Financial Policies and Procedures* states that the courts must obtain proof of receipt of goods or services before authorizing a payment.

.....
The court processed a payment of \$40,000 for mediation services without approval from any of the court's three top officers.
.....

The San Mateo court also purchased bottled water for its employees at an annual cost of \$4,000, which was not allowed under state contracting policy. As noted earlier, a similar purchase of water by the San Joaquin court was allowed because the water was exclusively for jurors with no other reasonable access to water. Although the judicial contracting manual does not specify whether the purchase of bottled water is allowable, the judicial contract law requires the manual's policies and procedures to

be substantially similar to provisions in the *State Administrative Manual* and the *State Contracting Manual*, as mentioned in the Introduction. These manuals generally prohibit the purchase of water for employees except in limited circumstances, such as when a building's water does not meet health standards. The budget analyst indicated that the court purchases the water for juror courtroom staff consumption—which is allowable when jurors and courtroom staff, such as judges and court reporters, do not have access to drinkable water—but that the court also allows its employees who do not work in the courtroom to consume this water. The deputy court executive officer acknowledged that there is no need for the San Mateo court to provide bottled water to its non-courtroom employees, since the water available from the building is suitable for drinking. Because it is using public funds to provide bottled water to its employees when there is no compelling need, the San Mateo court has fewer funds to support its operations.

Recommendations

To ensure that they properly authorize payments and purchase only allowable items, the superior courts we reviewed should process payments in accordance with the requirements and recommended practices of the Judicial Council and the State by doing the following:

- The San Joaquin court should implement a process to ensure that its staff adheres to the requirements within its policy when exceeding the \$1,500 per-transaction limit for purchase cards as established in the judicial contracting manual.
- The San Joaquin and San Mateo courts should make sure that they are receiving the goods and services they ordered. They should also pay vendors only after verifying receipt of the goods or services.
- The San Mateo court should take steps to ensure that appropriate employees authorize all payments.
- The San Mateo court should amend its bottled water service contract to ensure that water is purchased for use by jurors and court room staff only.

SCOPE AND METHODOLOGY

We conducted this audit pursuant to the audit requirements contained in the judicial contract law. Our audit focused on the superior courts of Riverside, San Diego, San Joaquin, San Mateo, and Tehama counties. Table 5 lists the audit objectives and methods we used to fulfill those objectives.

Table 5
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, regulations, administrative policies, and other background materials applicable to procurement and contracting by judicial branch entities, including the <i>Judicial Branch Contracting Manual</i> (judicial contracting manual).
2 Based on risk factors specified in Public Contract Code, Section 19210(a)(1), identify five judicial branch entities, excluding the Judicial Council of California, for audit to assess their implementation of the California Judicial Branch Contract Law.	Selected five judicial branch entities—the superior courts of Riverside, San Diego, San Joaquin, San Mateo, and Tehama counties—for audit based on our assessment of the level of risk across the range of factors contained in the Public Contract Code.
3 For the five superior courts selected for audit: <ul style="list-style-type: none"> <li data-bbox="342 1108 764 1220">a. Determine whether each court has developed its own local contracting manual, and assess its conformance to the judicial contracting manual. <li data-bbox="342 1220 764 1371">b. Assess each superior court’s internal controls over contracting and procurement and determine whether the court followed those controls. <li data-bbox="342 1371 764 1738">c. Assess each superior court’s compliance with key elements of the judicial contracting manual and its local contracting manual and procedures, including those related to competitive bidding, sole-source contracting, and payment and deliverable review and oversight. <li data-bbox="342 1738 764 1879">d. Evaluate each superior court’s contracts to determine whether there is a risk of inappropriately splitting contracts in order to avoid necessary approvals or competitive bidding requirements. 	<p data-bbox="776 1108 1510 1220">Obtained each court’s local contracting manual and compared each one to certain required and recommended practices in the judicial contracting manual. In conducting our review, we found that each court’s local contracting manual was materially in compliance with key provisions of the judicial contracting manual.</p> <ul style="list-style-type: none"> <li data-bbox="776 1220 1510 1287">• Interviewed superior court staff, reviewed desk procedures and local contracting manuals, and identified key internal controls. <li data-bbox="776 1287 1510 1371">• Determined whether the court followed these key controls by testing a selection of contracts active during fiscal year 2015–16 and payments made during fiscal year 2015–16.* <li data-bbox="776 1371 1510 1518">• Selected 12 contracts that were active during fiscal year 2015–16 using the contract lists available: the Judicial Council’s fiscal year 2015–16 <i>Semiannual Reports on Contracts for the Judicial Branch</i> (semiannual reports) and ad hoc reports provided by each superior court we audited when the semiannual report for January through June 2016 was not available. <li data-bbox="776 1518 1510 1602">• Determined whether each contract selected was subjected to competitive bidding and, if not, we determined whether the contract had approval and justification for being a noncompetitive procurement. <li data-bbox="776 1602 1510 1738">• Selected 18 payments—one for each of the 12 contracts mentioned above and another six payments made during the same period that were not related to a contract—to determine whether the superior court ensured that it had received the goods or services related to these purchases and that payments were properly approved. <p data-bbox="776 1738 1510 1879">Reviewed the fiscal year 2015–16 semiannual reports and the ad hoc reports to identify potential split transactions and reviewed those transactions. We did not identify any split transactions.</p>

continued on next page...

AUDIT OBJECTIVE	METHOD
e. Review the appropriateness of each superior court's state credit card (CAL-Card) or other court-issued credit card transactions when those transactions exceeded a total of \$100,000 or 10 percent of all reported procurement payments for a one-year period.	Performed this review for the San Diego, Riverside, and San Joaquin courts because the payment totals exceeded \$100,000 and/or were more than 10 percent of total annual procurement payments made by the court. The Tehama and San Mateo courts were not tested because these courts did not have credit card payments totaling more than \$100,000 or representing more than 10 percent of all annual procurement payments, as reported in the semiannual reports and the ad hoc reports for fiscal year 2015–16. However, we did review whether any purchases exceeded the \$1,500 per transaction limit that the judicial contracting manual allows.

Sources: California State Auditor's analysis of the judicial branch contract law and of information and documentation identified in the table column titled *Method*.

* The word *contracts*, as used in this report and described in the judicial contracting manual, can generally refer to several types of formal agreements for procuring goods and services, such as a formal contract or a purchase order.

Assessment of Data Reliability

In performing this audit, we relied upon electronic data extracted from the information systems of the Judicial Council and the five superior courts. Specifically, to select contracts for testing superior courts' compliance with procurement procedures, we used the Judicial Council's *Semiannual Report on Contracts for the Judicial Branch* (semiannual report) for the period of July 2015 through December 2015. Because we began our fieldwork at the five superior courts before the Judicial Council published its second semiannual report, for the period of January 2016 through June 2016, we requested that the superior courts generate ad hoc contract reports (ad hoc reports) for this period using the same data that the Judicial Council relies upon to produce its semiannual report. We used these reports to select contracts for the second half of the fiscal year.

The U.S. Government Accountability Office, whose standards we are statutorily required to follow, require us to assess the sufficiency and appropriateness of computer-processed information that we use to materially support our findings, conclusions, and recommendations. To gain assurance that the population from which we selected contracts for our compliance testing was complete, we selected six contracts from each of the five superior courts—for a total of 30 contracts—and traced them to the semiannual and ad hoc reports. We found that two of the six contracts we reviewed at the Tehama court were not included in these reports. Therefore, we determined that the Tehama court's semiannual and ad hoc reports were incomplete. Tehama acknowledged these errors and indicated that they may be due to oversight. We were able to successfully trace the remaining contracts at the other four courts to the semiannual and/or ad hoc reports, and we determined that these court's reports are complete.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to 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 specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: November 16, 2016

Staff: John Baier, CPA, Audit Principal
Jerry A. Lewis, CICA
Idris H. Ahmed
Christopher Bellows
Joseph S. Sheffo, MPA
Lisa J. Sophie, MPH

Legal Counsel: Amanda H. Saxton, Sr. Staff Counsel

For questions regarding the contents of this report, please contact Margarita Fernandez, Chief of Public Affairs, at 916.445.0255.

Blank page inserted for reproduction purposes only.



Chambers of
JEFFREY B. BARTON
Presiding Judge

The Superior Court
OF THE
State of California
SAN DIEGO

Mailing Address
Post Office Box 122724
San Diego, California 92112-2724

October 21, 2016


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

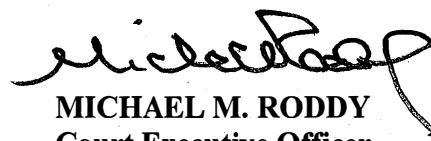
Re: **Response to Report Entitled "Judicial Branch Procurement: The Five Superior Courts We Reviewed Mostly Adhered to Applicable Requirements, but Some Improvements Are Needed."**

Dear Ms. Howle:

The Superior Court of California, County of San Diego has reviewed the above-entitled draft audit report. We agree with the findings in this report regarding our court.

Sincerely,


JEFFREY B. BARTON
Presiding Judge


MICHAEL M. RODDY
Court Executive Officer

Blank page inserted for reproduction purposes only.

**Superior Court of California, County of San Joaquin**

222 E. Weber Avenue, Room 303

P.O. Box 201022

Stockton, CA 95201

Telephone: (209) 992-5695

October 25, 2016

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

Subject: Judicial Branch Procurement Report 2016-301

Dear Ms. Howle,

On behalf of the Superior Court of California, County of San Joaquin, we are pleased to submit our written response to the draft Judicial Branch Procurement Audit Report #2016-301. The attached document summarizes any audit findings for our Court and includes our Court's responses to those findings.

Our Court is pleased that your audit found the remaining elements of our Local Contracting Manual and our contract and procurement practices in compliance with judicial branch contracting requirements.

We look forward to the finalization of the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "José L. Alva".

Hon. José L. Alva
residing Judge

A handwritten signature in black ink, appearing to read "Rosa Junqueiro".

Rosa Junqueiro
Court Executive Officer

Attachment

Superior Court of California,
County of San Joaquin
Court's Response to Judicial Branch
Procurement Audit Report #2016-301

Audit Recommendation 1:

San Joaquin should implement a process for applicable noncompetitive procurements to ensure that the vendor's prices are fair and reasonable.

Audit Recommendation 2:

San Joaquin should follow the judicial contracting manual's recommendations for procurement processes, and they should provide and consistently retain in contract files the justification for entering into contracts that they have not competitively bid.

Court's Response to Recommendations 1 and 2:

- ① The Court's Local Contracting Manual incorporates the Judicial Branch Contracting Manuals (JBCM) policies and procedures and the Court makes concerted efforts to follow the procurement processes instituted within the JBCM. The Court concedes that there were instances it did not include the sole source justification document, however, the procurements were approved prior to purchase. The Court was able to justify the procurements either through price comparisons or other reasonable justifications why certain procurements were sole sourced. The Court will ensure that all future sole sourced procurements include the sole source justification document prior to purchase.

With regards to the blanket purchased (BPO) order referenced within the Auditor's report, the Court did not consider the BPO as an exclusive sole source blanket agreement for toner, or a definite quantity agreement. The Court did procure toner from multiple entities during FY15/16. The Court understands the Auditor's position and will fully evaluate the Court's use of BPO's.

- ② With regards to the leveraged procurement agreement referenced within the Auditor's report, the Court's Participating Addendum incorporates the terms and conditions of the Master Agreement. The Court believes by incorporating the terms and conditions of the Master Agreement, which includes key contract elements, the incorporation satisfies the elements recommended by the JBCM. In addition the Court did issue a contract purchase order (CPO) that incorporated the Participating Addendum and included the term and pricing. Unfortunately, the SAP system template used for creating contract purchase orders includes the following language: "*THIS IS NOT A CONTRACT DOCUMENT IT IS FOR ENCUMBRANCE PURPOSES ONLY*". The Court understands that if the language did not appear on the template, then the CPO would have been acceptable to the Auditor. The Court is requesting the Judicial Council's Procurement and Contracting Division remove the language from the SAP CPO template.

Recommendation 3:

San Joaquin should make sure that they are receiving the goods and services they ordered and for which they plan to pay by making payments to vendors only after verifying receipt of the goods or services.

Court's Response to Recommendation 3:

The Court agrees with this recommendation. The Court paid an invoice for four bottles of water, for jurors, without ensuring the receipt was signed by the receiving Court department. The Court has notified the vendor that invoices will not be paid if signed receipts have not been received by the Accounting department. In addition, the Court has reminded the receiving departments to provide all signed receipts to Accounting.

Recommendation 4:

The San Joaquin court should implement a process to ensure that its staff adheres to the requirements within its policy for exceeding the \$1,500 per transaction limit for purchase cards as established in the judicial contracting manual.

Court's Response to Recommendation 4:

The Court agrees with this recommendation. The Court's written policy has been revised:

Existing Policy

"If there is a specific business need for exceeding the \$1,500 per transaction limit, the purchaser must obtain prior approval and explain the business reason for the higher transaction amount."

Revised Policy

*"If there is a specific business need for exceeding the \$1,500 per transaction limit, the purchaser must obtain prior approval and **provide a written explanation of the business reason for the higher transaction amount.**"*

Blank page inserted for reproduction purposes only.

COMMENTS

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

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

The San Joaquin court's response indicates a lack of understanding of the sole-source procurement process. As stated on page 7 of our report, there are specific requirements that the court is to follow when entering a sole-source contract. However, basic to these requirements is formal approval of the request to use a sole source procurement. In making that request, the court should describe the goods or services to be procured, explain why a competitive procurement cannot be done, the effort made to solicit competitive bids, the determination that the pricing offered is fair and reasonable, and any special factors affecting the cost or other aspects of the procurement. As noted on page 6 of our report, the Public Contract Code contains competitive bidding requirements to provide all qualified bidders with a fair opportunity to enter the bidding process and to eliminate favoritism, fraud, and corruption in the awarding of public contracts. By failing to understand and follow these required and recommended practices, the San Joaquin court risks entering into sole-source contracts that bypass the competitive process inappropriately.

①

②

The San Joaquin court is wrong. The participating addendum of the master agreement it refers to includes some required contract terms, but the basic terms outlining its procurement for multifunction copiers and related software were missing: the rental term—how long it would be renting each copier; type—what type of copiers it was renting; and pricing—how much it would pay for the rental of copiers as well as charges for maintenance, supplies, and copy volume. Lacking these elements, the San Joaquin court failed to enter into a contract that defined appropriately its rental of these multifunction copiers. Moreover, the fact that its procurement system is unable to produce a valid purchase order for this procurement did not preclude the San Joaquin court from manually preparing a purchase order that would clearly outline the rental agreement. Additionally, the mere removal of the language from the template document that the court describes would not make it a valid purchase order because that document continues to lack details

such as the price per page copied and the signature of the court manager who approved the procurement. Finally, the participating addendum clearly states that the vendor and the San Joaquin court will use purchase orders that “provide specific detail with regards to delivery, agreed upon rental term and type, pricing, or other detail that is strictly transactional detail.”



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF SAN MATEO
400 COUNTY CENTER
REDWOOD CITY, CA 94063-1655**

RODINA M. CATALANO
COURT EXECUTIVE OFFICER
CLERK & JURY COMMISSIONER

Tel: (650)261-5016
Fax: (650)261- 5147

October 21, 2016

Elaine M. Howle, CPA, California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 94815

RE: Report 2016-301

Dear Ms. Howle:

The San Mateo Superior Court has reviewed the draft audit report, *Judicial Branch Procurement*, Report 2016-301. Listed below are our responses to the five recommendations contained in the report. As you will see, we agree with all of the recommendations and plan to take action on most of them by December 31, 2016 and one by no later than November 2017.

***Judicial Branch Procurement* Audit Recommendations – Response of the Superior Court of California, County of San Mateo:**

Recommendation #1 -- The court should implement a process for applicable noncompetitive procurements to ensure that vendor's prices are fair and reasonable.

The Court agrees with the recommendation, specifically as it relates to leveraged purchase agreements. In general, the Court will revise its Local Contracting Manual to include all relevant sections of the JBCM that covers fair and reasonable pricing. Specifically, when utilizing LPAs, the court will take additional steps as needed to determine whether the vendor's prices are fair and reasonable.

Estimated completion date -- December 31, 2016.

Recommendation #2 -- The court should follow the judicial contracting manual's recommendation for procurement processes, and should provide and consistently retain in contract files the justifications for entering into contracts that they have not competitively bid.

The Court agrees with the recommendation, specifically as it relates to legal services contracts. The Court will amend its Local Contracting Manual to require the court to make

clear and explicit in relevant documents why contracts that are sole sourced are exempt from competitive bidding and will include all documents in the contract files.

Estimated completion date – December 31, 2016.

Recommendation #3 -- The court should take steps to ensure that appropriate employees authorize all payments.

The Court agrees with the recommendation. It is currently the Court's policy that all payments must be authorized by the appropriate approving officer and invoices must be signed by the approving officer before they are processed for payment. The court will identify steps that will help ensure that invoices are not paid unless approved by the appropriate officer.

Estimated completion date – December 31, 2016.

Recommendation #4 -- The court should make sure that they are receiving the good and services they ordered and for which they plan to pay by making payments to vendors only after verifying receipt of the goods or services.

The Court agrees with this recommendation and will immediately instruct division managers to confirm that all supplies ordered are received, sign all delivery packing slips when confirmation is made, and send signed slips to the Court's finance division. The finance division will confirm receipt of the slips before processing payment. The Court will revise its Local Contracting Manual to include these required steps.

Estimated completion date – December 31, 2016.

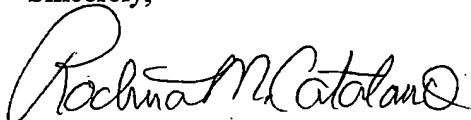
Recommendation #5 -- The court should amend its bottled water service contract to ensure water is purchased for and delivered to jurors and courtroom staff only.

The Court agrees with this recommendation and will amend its bottled water service contract to ensure water is only purchased for and delivered to jury assembly and deliberation rooms and courtrooms.

Estimated completion date – No later than November 2017.

I would like to commend your staff, led by Jerry Lewis, for their professional and courteous demeanor when working with our court staff during the audit process.

Sincerely,



Rodina M. Catalano, Court Executive Officer
Superior Court of California, County of San Mateo

cc: Honorable John L. Grandsaert, Presiding Judge

Caryn A. Downing
Court Executive Officer
Clerk of the Court
Jury Commissioner

**SUPERIOR COURT OF CALIFORNIA
COUNTY OF TEHAMA**

Tehama Courthouse
1740 Walnut Street
Red Bluff, CA 96080
Fax (530) 527-4974



October 21, 2016

VIA E-mail and U.S. Mail

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

RE: Response to Draft Audit Report on Judicial Branch Procurement, Report 2016-301

Dear Ms. Howle:

The Tehama Superior Court has received and reviewed the California State Auditor's draft report of our procurement practices related to contracts (both competitive and noncompetitive) and payments. The attached document addresses items noted in the audit report concerning contracting practices. Please be aware that the Tehama Court has already taken action on your recommendations to comply with the requirements and recommended practices of the Judicial Council and the State of California to ensure that we obtain the best value for the goods and services purchased.

The Tehama Superior Court is pleased that your audit findings found our Court's practices and processing of vendor and/or purchase card payments are in compliance with state law and the policies of the Judicial Council of California.

Thank you for your time and effort in reviewing our court for compliance and identifying ways to improve our contracting practices.

If you have any questions or require any additional information, please feel free to contact me directly at 530-527-6198.

Sincerely,

A handwritten signature in black ink, appearing to read "Caryn A. Downing".

Caryn A. Downing
Court Executive Officer

Enclosure

California State Auditor Report 2016-301
November 16, 2016
Judicial Branch Procurement

RESPONSES TO THE FINDINGS AND RECOMMENDATIONS IN THE PROCUREMENT AND PAYMENT AUDIT OF THE TEHAMA SUPERIOR COURT

Contracting Practices

The Tehama Court did not Consistently Follow Procedures for Noncompetitive Contracts, Particularly Regarding Fair and Reasonable Pricing.

Recommendation:

Tehama should follow a process for applicable noncompetitive procurements to ensure that vendor's prices are fair and reasonable.

Response:

The Court has revised its Contracts Checklist Form to include fair and reasonable pricing (See attached).*

Recommendation:

Tehama should follow the judicial contracting manual's recommendations for procurement processes, and they should provide and consistently retain in contract files the justifications for entering into contracts that they have not competitively bid.

Response:

The Court agrees with the recommendation and has already implemented a process for retaining justifications for entering into contracts in the actual contract file.

Recommendation:

Tehama should ensure that contracts include all required elements and the Tehama court should ensure that all contracts are properly approved.

Response:

The Court has revised its Contracts Checklist Form to include fair and reasonable pricing (See attached).*

* This document can be obtained by contacting the California State Auditor's office.



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #4 – (Action Required)

External Audit Report – State Controller’s Office

Requested Action:

- Discuss the external audit report and approve its posting on the www.courts.ca.gov website per California Rules of Court, Rule 10.63(c)(1).

Summary:

Government Code, Section 77206(i) requires the Judicial Council to undergo an audit of the revenues, expenditures and fund balances under its administration, jurisdiction or control every two years. Section 77206(j) requires the Judicial Council to contract with the State Controller’s Office to perform this audit, unless either the State Auditor’s Office or the Department of Finance can perform the same scope of work and methodology as the State Controller, but at a lower cost. The Judicial Council contracted with the State Controller in January 2017 to perform this audit for the fiscal year ending June 2016. The Department of Finance had performed the previous audit covering fiscal year 2013-14.

The overall result of the audit was favorable. As noted on page 1 of the State Controller’s Audit report (second paragraph), “Our audit found that Council staff complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures and fund balances.” The audit did identify three internal control observations, summarized as follows:

Observation #1 – Inadequate segregation of duties within payroll functions

The auditors found some Judicial Council employees who had the following conflicting duties:

- Entering timesheet data into the state’s payroll system
- Approving the timesheet entries into the payroll system

- Reconciling payroll information from State payroll records to the Judicial Council's source documents and reporting payroll exceptions.

The State Controller recommended that the Judicial Council either take steps to segregate conflicting employee duties or alternatively develop procedures that would serve as a compensating control.

Observation #2 – Deficiency of collection on employee account receivables

The auditors found \$24,448 in employee account receivables that were beyond 90 days due and Judicial Council staff did not have supporting documentation to demonstrate that any efforts were made to collect on those accounts. The State Controller recommended that the Judicial Council develop policies and procedures to collect on aging employee accounts receivable and to discharge / write off accounts that are unlikely to be collected.

Observation #3 – Lack of reconciliation process for employee accounts receivable

The State Controller noted that Judicial Council staff in the accounting department and human resources department at times had conflicting information on the remaining balances for employee account receivable amounts. The State Controller recommends that both units reconcile their account receivable balances to ensure balances are accurate.

Judicial Council staff accepted all three observations and its response provides additional information on the corrective action to be taken. Committee staff recommends that the audit committee approve the public posting of this audit report on www.courts.ca.gov per ROC 10.63(c)(1).

Supporting Documents:

- State Controller's Audit Report: *Judicial Council of California – Financial Compliance Audit, July 2015 through June 2016* (dated September 2017)



BETTY T. YEE
California State Controller

September 15, 2017

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, CA 94120-3688

Dear Mr. Hoshino:

The State Controller's Office performed an audit of revenues, expenditures, and fund balances of the Judicial Council of California (Council) staff. The audit was conducted to assess Council staff's compliance with governing statutes, rules, regulations, and policies for all significant funds under the jurisdiction of the Council staff for the period of July 1, 2015, through June 30, 2016.

Our audit found that Council staff complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. Our audit also identified weaknesses in the Council staff's administrative and internal accounting controls system, described in the Internal Control Observations section of this report, which should be addressed and corrected by Council staff.

Please submit any comments concerning the draft report within 15 calendar days after you receive this report. In particular, you should address the accuracy of the audit findings. We may modify the report based on your comments or additional data that develops as we complete the audit. We will also include your comments in the final report.

Please send your response to Jim L. Spano, CPA, Assistant Division Chief, at the State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, CA 94250-5874. If we do not receive your comments within the specified time, we will release the report as final.

This draft report is confidential. We limit report access and distribution to those referenced in this report. However, when we issue the final report, it becomes a public record.

September 15, 2017

If you have any questions, please contact Mr. Spano by telephone at (916) 323-5849, or by email at jspano@sco.ca.gov.

Sincerely,



JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

Attachment

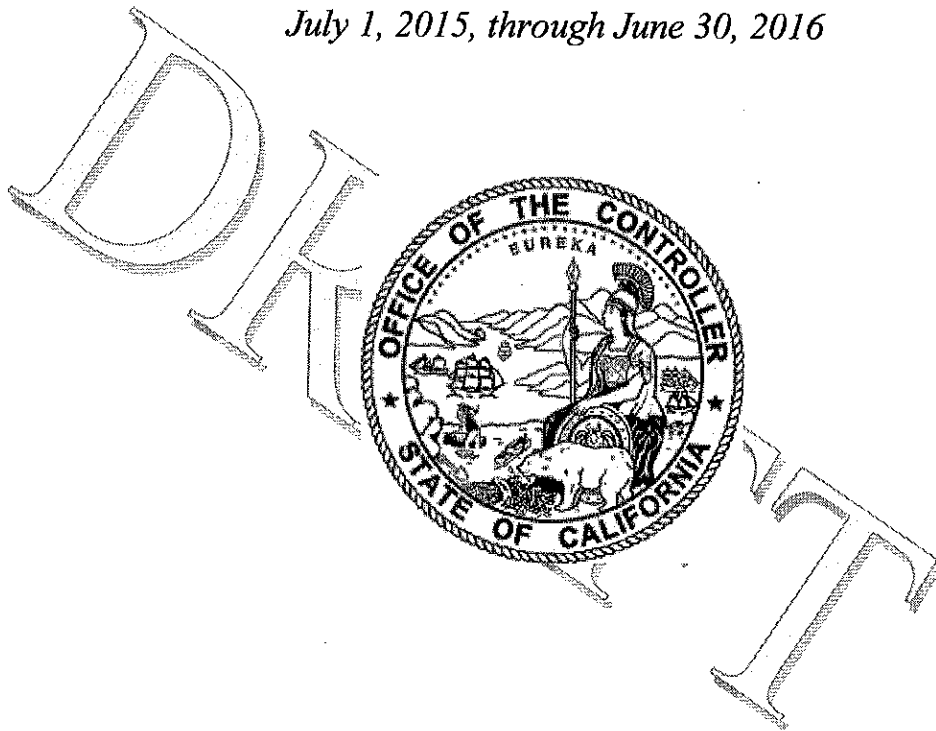
cc: Grant Parks, Principal Audit Service Manager
Judicial Council of California

JUDICIAL COUNCIL OF CALIFORNIA

Audit Report

FISCAL COMPLIANCE AUDIT

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

September 2017

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	1
Conclusion	3
Views of Responsible Officials	3
Follow-up on Prior Audit Findings	3
Restricted Use	4
Internal Control Observations	5
Appendix A—Status of Prior Audit Findings	

DRAFT

Audit Report

Summary

The State Controller's Office (SCO) audited the Judicial Council of California (Council) staff's compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff for the period of July 1, 2015, through June 30, 2016 (fiscal year 2015-16).

Our audit found that the Council staff complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances. Our audit also identified the following internal control weaknesses:

- Inadequate segregation of duties related to payroll functions;
- Deficiency of collection on past-due employee payroll accounts receivables; and
- Lack of a reconciliation process for employee accounts receivables.

Background

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

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

We conducted this audit under an Interagency Agreement with the Council.

Objectives, Scope, and Methodology

We conducted this audit to determine whether the Council complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for the period of July 1, 2015, through June 30, 2016.

Government Code (GC) section 77206(i) and (j) requires the SCO to audit the Council staff's compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff on or before December 15, 2013, and biennially thereafter.

The objectives of our audit were to determine whether:

- Revenues are accurately reported, are properly supported, and comply with applicable laws, regulations, and policies;
- Expenditures are accurately reported, are properly supported, and comply with applicable laws, regulations, and policies; and
- Fund balances are accurately reported, contain sufficient documentation, and comply with applicable laws, regulations, and policies.

To accomplish our objectives, we:

- Evaluated the Council's formal written internal policies and procedures;
- Gained an understanding of the key internal controls related to revenues, expenditures, and fund balances by interviewing key personnel and reviewing documents that support the transaction flow;
- Identified computer-processed data to be used during the audit and prepared a data reliability assessment;
- Conducted interviews with Council staff and observed the Council's business operations for the purpose of evaluating council-wide administrative and internal accounting controls;
- Reviewed the Council's documentation and supporting financial records;
- Judgmentally selected a non-statistical sample of 79 revenue transactions from all of the eight funds in which revenues were recorded; and in one of the funds for remittances to the State of California, randomly selected two counties each month and tested three revenue accounts. We performed the following procedures:
 - Traced revenues from the general ledger to supporting documentation; and
 - Verified that the selected revenues are allowable in accordance with applicable laws, regulations, and other criteria, such as the State of California Manual of State Funds;
- Judgmentally selected a non-statistical sample of 235 expenditure transactions for all of the 17 funds (46 accounts) in which expenditures were recorded. We performed the following procedures:
 - Traced expenditures from the general ledger to supporting documentation; and
 - Verified that the selected expenditures are allowable in accordance with applicable laws, regulations, and other criteria, such as the State of California Manual of State Funds; and

- Performed the following procedures on all nine funds administrated by Council staff:
 - Performed analytical review of fund balances to identify any unusual balances or transactions;
 - Verified that fund balances are accurate by recalculating and tracing amounts from Council financial statements to any supporting documentation; and
 - Reviewed fund balance transfers to supporting documents to ensure that transfers were allowable in accordance with applicable criteria, such as Executive Orders and California statutes.

We did not discover any errors in the samples tested.

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

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

Conclusion

Our audit found that Council staff complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. This report also identified weaknesses in the Council staff's administrative and internal accounting controls system described in the Internal Control Observations section of this report that should be addressed and corrected by the Council staff.

Views of Responsible Officials

We conducted an exit conference on August 9, 2017, and discussed our audit results with Grant Parks, Principal Audit Services Manager. At the exit conference, we stated that the final report will include the views of the responsible officials.

Follow-up on Prior Audit Findings

The Department of Finance issued the prior audit report on August 25, 2015, for the period of July 1, 2013, through June 30, 2014. Findings noted in this report have been satisfactorily resolved by Council staff with the exception of Finding 2, as summarized in Appendix A, Status of Prior Audit Findings.

Restricted Use

This report is solely for the information and use of the Council staff and the SCO; it is not intended to be and should not be used by anyone other than these parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

_____, 2017

DRAFT

Internal Control Observations

OBSERVATION 1— Inadequate segregation of duties within payroll functions

The Council staff lacked adequate internal control procedures to ensure segregation of duties within the payroll and benefits unit related to payroll transactions.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including proper segregation of duties and an effective system of internal review. Adequate segregation of duties reduces the likelihood that fraud or error will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of work performed.

Through discussions with Council payroll staff and walkthroughs of payroll processes, we found that the same Council payroll staff members performed the following conflicting duties:

- Entered timesheets into the State payroll system;
- Reconciled payroll information from the State payroll system to source documents and reporting payroll exceptions; and
- Authorized entered timesheet information in the payroll system.

Council staff failed to demonstrate that it had implemented compensating controls to mitigate risks associated with the lack of segregation of duties.

Adequate segregation of duties provides a stronger system of internal control, as the functions of each employee will be subject to review of another employee.

The lack of adequate segregation of duties and compensating controls has a pervasive effect on the Council payroll process, and impairs the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively. This control deficiency represents a material weakness in internal control over the payroll process. A reasonable possibility exists that a material misstatement in financial information or noncompliance with provisions of laws, regulations, or contracts will not be prevented, or detected and corrected in a timely manner.

Recommendation

We recommend that Council staff establish internal control procedures:

- To separate conflicting payroll function duties related to authorizing, recording, and reconciling transactions; and
- For performing and documenting compensation controls, if it is unable to segregate payroll functions fully and appropriately.

**OBSERVATION 2—
Deficiency of
collection on
outstanding employee
accounts receivables –
Repeat Finding**

Council staff does not have adequate internal control procedures to collect and write off aging employee accounts receivables.

Our audit identified a net balance of \$24,448 in employee accounts receivables over 90 days in General Fund 0001, Account 1319, ranging from October 4, 2002, through June 22, 2015. Council staff did not provide documentation supporting that any efforts were made to collect on these accounts during the audit period.

SCO's Payroll Procedural Manual, sections I 007 through I 180, identifies collection provisions and procedures for recouping salary overpayments made to an employee. Failure to collect receivables in accordance with these procedures increases the risk that transactions will be processed incorrectly and that money due the Council will not be collected.

GC section 13402 states that:

Agency heads are responsible for the establishment and maintenance of a system or systems of internal control, and effective and objective ongoing monitoring of the internal controls within their state agencies. This responsibility includes documenting the system, communicating the system requirements to employees, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Recommendation

We recommend that Council staff establish policies and procedures to collect on aging employee accounts receivables. If the collection efforts do not result in payment, we recommend that the Council submit an application for discharge of accountability to the SCO to write off the aging employee accounts receivables.

**OBSERVATION 3—
Lack of reconciliation
process for employee
accounts receivables**

Council staff does not have adequate control procedures related to the reconciliation of outstanding employee accounts receivable balances.

Our audit found that reference and clearance numbers from the accounting records did not always match source documents provided by the Council Human Resources Department. Based on discussions with the Council Human Resources and the Accounting General Ledger groups, we noted that the two departments do not perform reconciliations of outstanding employee receivable balances. The lack of reconciliations of outstanding employee accounts receivable balances may cause employee accounts receivables to be incorrectly stated in the general ledger.

GC section 13401(a)(5) states, "Systems of internal control are necessarily dynamic and must be routinely monitored, continuously evaluated, and, where necessary, improved." The development and implementation of internal control procedures will improve the integrity of financial reporting and help Council staff work more effectively in complying with governing statutes, policies, and procedures.

Recommendation

We recommend that Council staff establish policies and procedures related to the reconciliation of outstanding employee account receivable balances to ensure that amounts are accurate and traceable to source documents.

DRAFT

Appendix A— Status of Prior Audit Findings

The Department of Finance (DOF), Office of State Evaluations, performed the previous fiscal compliance audit for the period of July 1, 2013, through June 30, 2014. The report was dated August 24, 2015. The previous findings and status is as follows:

DOF Finding	Description of Previous Audit Finding	Finding Corrected?	Comments
1	Employee receivables and payables were not cleared timely.	No	Repeat Finding --See Internal Control Observations 2
2	Vendor payments duties were not adequately segregated.	Yes	Implemented
3	Deposits were not always allocated timely.	Yes	Implemented
4	Reconciliations were not properly reviewed.	Yes	Implemented
5	Some policies and procedures were not documents.	Yes	Implemented

DRAFT

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

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



JUDICIAL COUNCIL OF CALIFORNIA

455 Golden Gate Avenue • San Francisco, California 94102-3688
Telephone 415-865-4200 • Fax 415-865-4205 • TDD 415-865-4272

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

MARTIN HOSHINO
Administrative Director

September 27, 2017

Mr. Jeffrey V. Brownfield, CPA
Chief, Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, California 94250-5874

Dear Mr. Brownfield:

I am in receipt of your draft audit report, dated September 15, 2017, pertaining to the State Controller's Office (SCO) review of the revenues, expenditures, and fund balances of all material funds under the administration, jurisdiction, or control of the Judicial Council of California under Government Code section 77206(i). The Judicial Council appreciates the professionalism of the State Controller's audit staff and is pleased with your report's primary conclusion that "Council staff complied with governing statutes, rules, regulations, and policies."

The draft audit report also contains three internal control observations, noting opportunities where the Judicial Council can improve its processes. The Judicial Council will work toward addressing your report's observations, as noted below.

Observation 1—Segregation of duties over payroll functions

Although current staffing of the Judicial Council's Human Resources office prevents segregating each payroll function, Human Resources staff are in the process of developing for the Payroll and Benefits unit written procedures that will include monthly reviews by supervisors of payroll-

related transactions. Human Resources expects to formalize these written procedures by December 31, 2017, which will entail the following:

- *Monthly review of personnel/payroll transactions keyed into the State Controller's Office (SCO) system.* A Human Resources analyst or supervisor will review the personnel/payroll transactions monthly and ensure that they are keyed into the system accurately based on the internal, approved requests. Evidence of these reviews will be documented by maintaining a log of reviewed documents.
- *Quarterly audits of personnel/payroll data within SCO system.* Human Resources began auditing and comparing SCO personnel/payroll data with internal Judicial Council HR systems data in 2015. This review, which is ongoing, provides an extra auditing tool to ensure the accuracy and consistency of the data within both the Judicial Council and SCO systems. Results of these reviews are currently maintained in an Excel file that accessible to management.
- *Monthly review of overtime transactions.* Every month, a Judicial Council Human Resources analyst or supervisor will review overtime transactions for consistency based on the Judicial Council's policies and procedures. These reviews will be maintained in an Excel file identifying issues and resolutions and will be stored in a shared directory.

A Human Resources analyst or supervisor will periodically review the documented results of these reviews and identify any systemic errors that may highlight the need for additional staff training.

Observation 2—Collections on employees' accounts receivable

Human Resources has developed written procedures regarding the collection of outstanding employee accounts receivables. These policies describe the requirements for various collection approaches, such as payroll deductions or payments made by check directly from the employee.

Branch Accounting and Procurement staff, along with staff from Human Resources, have also developed new procedures describing how their staff will jointly review employee accounts receivable no less frequently than monthly to ensure ongoing collection activity. In addition, accounting staff will review account balances quarterly to identify those accounts eligible for discharge.

Observation 3—Reconciliation of employees' accounts receivable

Branch Accounting and Procurement has drafted policies, with the input of Human Resources, to ensure that employee accounts receivable amounts are consistently identified and reported to the State Controller's Office. The policy identifies Human Resources as responsible for initially

Mr. Jeffrey V. Brownfield, CPA

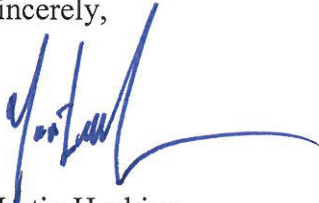
September 27, 2017

Page 3

identifying amounts owed by an employee and reporting those receivables to the State Controller's Office via *Payroll Adjustment Notice—Accounts Receivable (A/R)*, form STD. 674 A/R. Once the SCO records the receivable in its records, it will then notify the Judicial Council's accounting staff, who will then record the receivable within the Oracle financial system.

The Judicial Council appreciates the State Controller's audit, which serves not only as a tool to improve our existing practices, but also as a means to demonstrate our financial accountability over the public's funds. Please feel free to contact Principal Manager Grant Parks, Audit Services, at 916-263-1321, should you require any additional information pertaining to this response.

Sincerely,



Martin Hoshino
Administrative Director
Judicial Council

MH/GP

cc: Jody Patel, Chief of Staff, Judicial Council

John Wordlaw, Chief Administrative Officer, Judicial Council

Doug Kauffroath, Director, Branch Accounting and Procurement, Judicial Council

Aurora Rezapour, Director, Human Resources, Judicial Council

Grant Parks, Principal Manager, Audit Services, Judicial Council



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Requested Action:

Discuss the nine external audit reports—Attachments “A” through “I”—and approve their posting on the www.courts.ca.gov website per California Rules of Court, Rule 10.63(c)(1).

Summary:

The Judicial Council and the Department of Child Support Services (DCSS) have an interagency agreement whereby DCSS provides \$55.1 million each year to support the “AB 1058” program at the superior courts. The AB 1058 program supports two sub-programs: the *Child Support Commissioner* and *Family Law Facilitator* programs. Following its agreement with DCSS, the Judicial Council then enters into individual grant agreements with the superior courts to “pass through” the AB 1058 funding originally provided by DCSS. Funding to the courts is a mix of both state support from the General Fund and federal dollars under Title IV-D of the Social Security Act (42 USC 651 – 669b). The overarching goal of the AB 1058 program is to assist with the timely enforcement of child support orders.

As a condition of receiving AB 1058 funds, the superior courts must allow DCSS auditors to evaluate court compliance with state and federal rules, including rules regarding how personnel costs are to be documented. Beginning in the fall of 2016, DCSS began auditing a sample of courts’ supporting documentation for costs charged against the AB 1058 grant during fiscal year 2014-15. A common finding raised by DCSS was the observation that court personnel costs often did not follow grant requirements. Specifically, the JCC-Court grant agreements require court staff to document their ***actual time*** spent on the AB 1058 grant versus non-grant activities using timesheets; however, DCSS found numerous instances when court staff acknowledged that they had estimated the hours spent supporting the AB 1058 program. As a result, DCSS auditors disallowed significant portions of some courts’ costs. The DCSS auditors’ review focused on the supporting documentation for each court’s claimed spending activity and did not otherwise evaluate the courts’ performance in terms of

service delivery levels or other performance metrics. Given that DCSS’s grant agreement is with the Judicial Council, and not the individual courts, DCSS auditors recommended that the Judicial Council repay over \$1.1 million to DCSS (as listed below).

Schedule of Disallowed Costs by DCSS

Superior Court	Total Disallowed Costs	Disallowed Costs as a % of Funding Received	Court Perspective on Findings
Alameda	\$442,366	24%	Agree that timekeeping practices can be improved, but returning money would unnecessarily harm program.
Amador	\$3,634	4%	Court agrees with finding.
Kern	\$3,996	0%	Court believes it has corrected the problem and the return of funds is unnecessary.
Kings	\$1,385	0%	Court agrees with finding.
Mendocino	\$0	0%	No response, no findings.
Napa	\$267,187	80%	Agree that timekeeping practices can be improved, but returning money would unnecessarily harm program.
Placer	\$325,170	64%	Agree that timekeeping practices can be improved, but returning money would unnecessarily harm program.
San Diego	\$0	0%	No response, no findings.
San Joaquin	\$101,092	10%	Agree that timekeeping practices can be improved, but returning money would unnecessarily harm program.
Total	\$1,144,830	13%	

Roughly 96% of the \$1,144,830 in total disallowed costs pertained to court personnel costs (Alameda, Amador, Napa, Placer, and San Joaquin). Those courts with significant monetary findings consistently stressed in their responses that important program services were being offered to the public and, notwithstanding the need to improve their administrative timekeeping practices, returning such a significant portion of the grant's funding would only harm those who rely on the AB 1058 program.

The Judicial Council's executive management team is having ongoing discussions with DCSS on how best to resolve the audit findings described above. Committee staff recommend that you approve the attached final audits reports (attachments "A" through "I") for posting on www.courts.ca.gov.

Supporting Documents:

- Attachment A – Alameda Superior Court (AB 1058 Audit)
- Attachment B – Amador Superior Court (AB 1058 Audit)
- Attachment C – Kern Superior Court (AB 1058 Audit)
- Attachment D – Kings Superior Court (AB 1058 Audit)
- Attachment E – Mendocino Superior Court (AB 1058 Audit)
- Attachment F – Napa Superior Court (AB 1058 Audit)
- Attachment G – Placer Superior Court (AB 1058 Audit)
- Attachment H – San Diego Superior Court (AB 1058 Audit)
- Attachment I – San Joaquin Superior Court (AB 1058 Audit)



**JUDICIAL COUNCIL
OF CALIFORNIA**

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachments “A” through “I” – AB 1058 Audit Reports by DCSS

- Attachment A – Alameda Superior Court (AB 1058 Audit)
- Attachment B – Amador Superior Court (AB 1058 Audit)
- Attachment C – Kern Superior Court (AB 1058 Audit)
- Attachment D – Kings Superior Court (AB 1058 Audit)
- Attachment E – Mendocino Superior Court (AB 1058 Audit)
- Attachment F – Napa Superior Court (AB 1058 Audit)
- Attachment G – Placer Superior Court (AB 1058 Audit)
- Attachment H – San Diego Superior Court (AB 1058 Audit)
- Attachment I – San Joaquin Superior Court (AB 1058 Audit)



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment A – Alameda Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



September 29, 2017

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), final report on the costs claimed under the Judicial Council of California contract by the Superior Court of California, County of Alameda (Court). Our review was limited to examining AB 1058 child support related costs claimed in fiscal year 2014-15 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of the AB 1058 child support grant funds.

OAC reviewed the Court's response to the draft report, including the corrective action identified by the Court in response to the reported findings. The findings have not changed and the results of the review are in the attached Evaluation of Response.

DCSS Administrative Services Division will issue a letter regarding the repayment and/or corrective action required in response to the findings in this report. OAC will follow up within six months from the date of this report to ensure the corrective action was taken by the Court.

We appreciate the assistance and cooperation of the Judicial Council and the Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in black ink that reads "Karen Dailey".

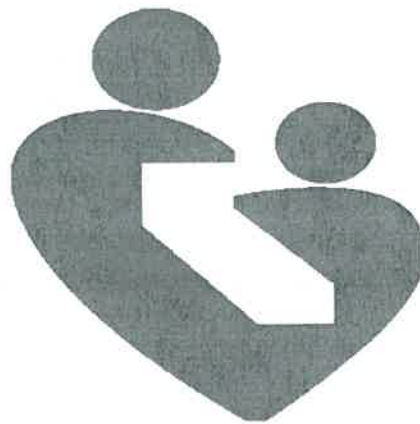
KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of Alameda**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of Alameda**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVES, SCOPE AND METHODOLOGY.....	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
RESTRICTED USE.....	5
FINDINGS AND RECOMMENDATIONS	6
AGENCY RESPONSE	10
EVALUATION OF RESPONSE.....	14
AUDIT STAFF	15

**Judicial Council Contract Review
Superior Court of California, Alameda County
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipients monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court of California, County of Alameda (Court) CSC and FLF program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from non-custodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. Title 45, Section 302.34 gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California judicial system. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the Courts under grant funding Assembly Bill (AB) 1058. In SFY 2014-15, DCSS contracted the JCC for a total of \$55,171,367. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$1,833,549 in state and federal funds as follows: \$1,382,802 for the CSC and \$450,747 for the FLF program.

OBJECTIVES, SCOPE AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement #10-28830 for the CSC program and #10-28735 for the FLF program complied with applicable laws, rules, and regulations, including OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards set forth in Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements), Trial Court Financial Policies and Procedures Manual (FIN Manual) and Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions.

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with *Government Auditing Standards*; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. Section 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipients to ensure the subaward is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipients program operations. Section 200.336 Access to records provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Findings and Recommendations section of this report below, we found the Court did not have sufficient support for the personnel expense claimed in the FLF program during our audit period. As indirect costs are based on supported personnel expense, the Court also lacked support for indirect costs claimed. We also found the Court lacked support for some operating costs claimed in the FLF program during the selected sample months of review.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDINGS AND RECOMMENDATIONS

Finding 1 – Unsupported Personnel Costs – \$440,510

Condition

For SFY 2014-15, we found the Court did not have support for salary, benefits or indirect costs claimed in the FLF program. Specifically, the Judicial Council of California AB 1058 grant instruction manual and annual training requires the Courts to allocate salary and benefits based on the actual hours that court staff spend in the IV-D child support (AB 1058) program activities. However, instead of documenting actual hours worked on the time reporting grant timesheet (JC-4 timesheet), the Court staff entered hours on their JC-4 timesheet as instructed by the FLF Secretary, who was following a methodology from the Court's Grant Coordinator.

According to the FLF Secretary, the Court's Grant Coordinator determined the total hours FLF staff should record in the JC-4 timesheet in order to ensure the Court met budgeted grant funding, and made adjustments as needed to ensure funding was expended. During our audit period, FLF staff used an overall 4/3/1 split each day, ensuring 50 percent of the hours were allocated to the AB 1058 program, 37.5 percent of the hours were allocated to self-help program, and the remainder of the hours were allocated to small claims or database tracking. If adjustments were needed to ensure federal dollars were expended, the FLF Secretary sent out e-mails or provided training instructing FLF how to record hours on the JC-4 timesheet. For example, a recent e-mail dated April 2017, from the FLF Secretary instructed FLF staff to allocate 50 percent of their time to the AB 1058 program, and 50 percent of their time to the self-help program, with no hours recorded in small claims. According to the FLF Attorney, the JC-4 timesheets must be completed in accordance with the percentages provided by the FLF Secretary. If staff prepared the JC-4 timesheet based on actual hours or using any other methodology, the JC-4 timesheet would be sent back to FLF staff for correction and resubmission.

As a result, overall grant hours were recorded based on a methodology that maximizes grant funding, not in accordance with the JCC policy and procedures or federal regulations that require salary to be allocated based in the actual direct labor hours worked in the program. In addition, the FLF staff and FLF supervisors "certify under penalty of perjury that this time sheet accurately represents actual time worked..." on the JC-4 timesheet. As a result, we deemed the time reporting documentation unreliable and unsupported as there is no support, in terms of direct labor hours, to allocate salary, benefit or indirect costs to the AB 1058 grant program.

We are questioning \$440,510 in unsupported, unauthorized and unallowable salary, benefits and indirect costs to the program in SFY 2014-15 (\$450,747 reimbursed for the FLF program less \$10,237 reimbursed for operating expense).

Criteria

Title 2 CFR 200.430 (i) Standards for Documentation of Personnel Expenses states all charges for salary and wages must be based on records that accurately reflect the work performed. These charges must be:

- supported by a system of internal controls that provides assurance the charges are accurate, allowable and properly allocated;
- reasonably reflects the total activity for which the employee is compensated;
- encompass both federally assisted and all other activities; and
- comply with the established accounting policies and practices.

Policies and procedures provided to the Court in the Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, states, "The salaries and benefits of court employees who work on AB 1058 program components (CSC and FLF) can be charged to the grant...for the time devoted and identified specifically to the program" (page 11). Page 15 provides specific guidance to the Courts on documenting allowable and not allowable hours that can be charged directly to the AB 1058 program when completing the time reporting documentation.

The JC-4 timesheet, signed by the employee and the employee's supervisor, states, "I hereby certify under penalty of perjury that this time sheet accurately represents actual time worked...".

Recommendation

The JCC should return \$440,510 to for unsupported salary, benefit and indirect costs claimed in SFY 2014-15. The percentage of salary and benefit costs claimed must be allocated based on the actual labor hours directly FLF staff actually work in the AB 1058 grant program and must be claimed in accordance with the JCC established policies, procedures and federal regulations. The indirect costs charged to the AB 1058 grant program must be supported by allowable salaries and wages.

The JCC has an opportunity to strengthen its processes by working collaboratively with the Courts to develop a methodology that supports claimed costs and may consider developing a process, such as on-site monitoring reviews, to ensure the courts understand and apply the JCC policies, procedures, and federal regulation requirements that support the claimed AB 1058 salary and benefit costs.

Finding 2 – Unsupported Operating Expense – \$1,856

Condition

The Court lacked support for operating costs claimed in the Family Law Facilitator Program. Specifically, the Court used one self-help center to assist individuals with all

court services. Services may have included family law, traffic violations, civil cases (including elder abuse, landlord/tenant, name changes, and small claims), probate, immigration and child support (FLF). The FLF Attorney indicated the Court merged all services into one self-help center to improve customer service.

We reviewed three months of operating costs for the FLF program and found instances where the costs were not properly allocated or unallowable. In September 2014 and February 2015, we found instances where the FLF program was reimbursed for the full costs of items such as office supplies, cell phones, and copy charges for the self-help center. Since the self-help center performed both IV-D and non-IV-D activity, these costs must be allocated based on the benefit to the IV-D (AB 1058) program. We also found the FLF program was charged for travel costs for FLF staff to travel between self-help centers. As these costs do not directly benefit the IV-D activity, they cannot be charged to the program in-full. Using the partial reimbursement rate of 52 percent as approved by the JCC, we allowed a percentage of these costs as shown in the table below.

We also found instances where costs were not allowable. In August 2014, we found the Court claimed charges for an FLF Attorney to fly from Detroit, Michigan to an AB 1058 conference in Los Angeles. Using the air fare costs charged for the remaining staff to fly from Oakland to Los Angeles, we disallowed the additional \$95 costs that was incurred from the Attorney who flew in from Detroit. We also found an instance in February 2015, where the Court charged for training and travel costs for one FLF staff to attend the Legal Aid Association of America Conference. Since the JCC strictly prohibits travel costs that are not directly related to the AB 1058 program, we disallowed this cost in full. As a result, we are questioning \$1,856 in unallowable and unallocated costs as shown in the table below.

Summary of Total Disallowed Costs

Month	Partially Reimbursable Costs Not Allocated	Unallowable Cost	Total Disallowed Costs
August 2014		\$95	\$95
September 2014	\$610		610
February 2015	671	480	1,151
	\$1,281	\$575	\$1,856

We did not expand testing to other months as it was not cost effective. However, had we expanded, additional testing may have revealed instances of noncompliance.

Criteria

Title 2 CFR 200.403 Factors affecting allowability of costs requires costs to be adequately documented and consistent with the policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

Section 200.405 states that costs are only allocable to the federal award in accordance to the benefits received.

Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, page 7 states, "Operating expenses are broken down into two categories: 100 percent reimbursable and partially reimbursable. Each court was given a percentage to be used to calculate the partially reimbursable expenses for the CSC and the FLF components of the program...." Page 20 states that other expenditures are to be claimed at a percentage of program reimbursable hours. These represent costs shared with other departments of the court or with other court employees not working on Title IV-D or outreach hours. Some of the partial reimbursable items are:

- Office supplies
- Facility charges – rent, lease, storage, etc.
- Rented equipment – copy machine, copy charges, etc.
- Communication charges – telephone, internet services, etc.
- Travel – private mileage

Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, page 7 states, "Items that cannot be claimed for reimbursement includes training not directly related to the AB 1058 program."

Recommendation

The JCC should return \$1,856 in operating costs that were unallowable or charged in full to the FLF program. In the future, the Court should allocate shared costs, such as copier charges, office supplies and travel, based on a reasonable allocation basis. Further, costs that are unallowable, such as training not related to the AB 1058 activity, should not be charged. Lastly, the JCC has an opportunity to ensure court staff, who prepare the claim for reimbursement fully understand and apply the JCC policies and procedures, which require shared costs to be allocated to the AB 1058 child support program.

Agency Response



SUPERIOR COURT OF CALIFORNIA, COUNTY OF ALAMEDA

Executive Office

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

Telephone: (510) 891-6012

MORRIS D. JACOBSON
Presiding Judge

CHAD FINKE
Executive Officer

August 17, 2017

VIA EMAIL TO: dcssoac@dcss.ca.gov

Karen Dailey
Audit Manager
Office of Audits & Compliance
Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 98741-9064

SUBJECT: Response to DCSS Draft Audit Report

Dear Ms. Dailey:

This is in response to the July 2017 Judicial Council Contract Review, Department of Child Support Services, Office of Audits and Compliance Draft Audit Report for the Superior Court of California, County of Alameda.

In its report, the DCSS auditors cite that the Court did not comply with applicable laws, rules and regulations for the time period of July 1, 2014 through June 30, 2015.

Finding 1 – DCSS concluded that the Court had \$440,510 of unsupported personnel costs for salary, benefits or indirect costs claimed in the FLF program. While the Court is in agreement that the previously used 4/3/1 methodology did not comply with the Judicial Council's policies and procedures as required in its grant agreement, the Court nevertheless spent significant resources supporting the AB 1058 program and achieved important program outcomes as demonstrated by the following statistical data:

Statistical Data: July 1, 2014 through June 30, 2015

- 2,415 New Child Support Cases Filed with the Court, which includes:
 - Summons and Complaints for Parental Obligations
 - Statements for Registration of California Support Orders

- Notices of Registration of Out-of-State Support Orders
- UIFSA – Uniform Support Petitions
- 8,000+ Hearings Calendared in the Court's 2 DCSS Courtrooms

Court's Plan for Corrective Action

The Court is currently in the process of taking the corrective steps to properly allocate the direct labor hours the FLF staff reports on the JC-4 timesheets. The Court is currently developing a methodology to ensure accounting principles are properly monitored and reported to comply with federal statutes and regulations accurately. The Court will work collaboratively with the Judicial Council to strengthen its processes. As such, designated court staff participated in an AB 1058 Timekeeping Webinar on June 23, 2017 facilitated by the Judicial Council. The Court will formulate internal controls in order to follow the Title 2 CFR 200.430 (i) Standards for Documentation of Personnel Expenses.

Based on the statistical information provided, the Court finds that DCSS' recommendation that Judicial Council reimburse \$440,510 would have a severe impact on the Court's ability to successfully serve the public seeking or enforcing child support orders. It would also have a significant impact on the Court's already reduced budget.

Finding 2 – DCSS concluded that the Court had \$1,856 of unsupported operating expenses claimed in the FLF program. The findings also concluded that the Court lacked support for some operating costs claimed in the FLF program during the selected sample months of review.

The Court agrees that it can improve its recordkeeping to demonstrate how shared costs are allocated between the AB 1058 program and other programs. Court staff will review the Judicial Council's revised AB 1058 "Accounting and Reporting Instructions" handbook (revised July 2016), which describes how the Court should obtain reimbursement for shared costs, such as: office supplies; copy machines; and communications charges.

Court's Plan for Corrective Action

The Court acknowledges the partial reimbursement rate of 52% as approved by the Judicial Council and will implement new controls in the form of increased monitoring by supervisors to ensure grant rules are followed. As of April 2017, a new grant manager from the Court's finance department has been assigned to assist in monitoring the self-help grants, including the AB 1058 grant. The current Managing Attorney for the Self-Help Center works closely with the grant manager to ensure that the Court applies the Judicial Council's policies and procedures, which require shared costs to be allocated to the AB1058 child support program.

The Court acknowledges the assessment and significance that the audit provided. The Court appreciates the continued collaboration with the Judicial Council and DCSS to

Karen Dailey
August 17, 2017
Page 3

ensure that IV-D program funds are effectively serving the families associated with the child support program in California.

Sincerely,



Chad Finke,
Court Executive Officer

cc: Anna Maves, Supervising Attorney, CFCC Administration, Judicial Council of California
Grant Parks, Manager, Internal Audit Services, Judicial Council of California
Charlotte Marin, Acting Family Director, Superior Court of California, County of Alameda

Evaluation of Response

On July 31, 2017, OAC issued a draft report for the Court's review and response. We received the Court's written response to the draft report on August 18, 2017.

The court concurs with our findings and is in process to take corrective action to allocate actual hours on JC-4 timesheet. The court is working to develop methodology to ensure accounting principles are monitored and reported accurately. The JCC should continue to work with the court to determine if the new methodology is sufficient to fully address these findings and complies with regulation and JCC established policies and procedures. We will follow up with the JCC in six months to determine the sufficiency of the corrective action implemented.

Audit Staff

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Scott Hunter
Audit Supervisor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment B– Amador Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



January 5, 2017

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT REVIEW
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), final report on costs claimed under the Judicial Council of California contract by the Superior Court of California, County of Amador (Court). Our review was limited to examining AB 1058 child support related costs claimed in fiscal year 2014-2015 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of the AB 1058 child support grant funds.

The OAC reviewed the Court's response to the draft report, including the corrective action identified by the Court in response to the reported finding. The finding has not changed and the results of the review are in the attached Evaluation of Response.

The DCSS Administrative Services Division will issue a letter regarding the repayment and/or corrective action required in response to the finding in this report. OAC will follow up within six months from the date of this report to ensure corrective action was taken by the Court.

We appreciate the assistance and cooperation of the Judicial Council and the Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in cursive script that reads "Karen Dailey".

KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of Amador**



**Prepared by:
Office of Audits and Compliance**

**Judicial Council Contract Review
Superior Court of California, County of Amador
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipient monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California (JCC) who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court, County of Amador's (Court) CSC program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from non-custodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. *Title 45, Section 302.34* gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California judicial system. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the courts under grant funding AB 1058. In SFY 2014-15, DCSS reimbursed the JCC for \$55,171,367 under a cooperative agreement with the JCC. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$102,438 in state and federal funds for the CSC program.

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of Amador**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVES, SCOPE AND METHODOLOGY.....	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
RESTRICTED USE.....	5
FINDING AND RECOMMENDATION	6
AGENCY RESPONSE	8
EVALUATION OF RESPONSE.....	10
AUDIT STAFF	11

OBJECTIVES, SCOPE AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement #10-28831 for the CSC program complied with applicable laws, rules, and regulations, including *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards set forth in Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements); Trial Court Financial Policies and Procedures Manual (FIN Manual); and Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions.*

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with *Government Auditing Standards*; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. § 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipient to ensure the subaward is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipient's program operations. §200.336 *Access to records* provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Finding and Recommendation section of this report below, we found the Court did not have sufficient support for the personnel expense claimed during our audit period. As indirect costs are based on supported personnel expense, the Court lacked support for a portion of the indirect costs claimed. Based on the sample of operating expenditures reviewed, we found the Court had sufficient support for claimed operating costs.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and LCSA and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDING and RECOMMENDATION

Finding 1 – Unsupported Personnel Costs – \$3,634

Condition

For SFY 2014-15, we found the Court erroneously overclaimed \$3,029 in personnel salary and benefits costs. Specifically, we found the pay period ending July 23, 2014 was recorded twice on the JC-3 timesheet summary, once on the July 2014 invoice and again in the August 2014 invoice. In July 2014, the Court claimed \$3,029 in salary and benefit costs for the Court Manager, Court Commissioner, Court Clerk, and Janitor for pay period ending July 23, 2014. We then reviewed the August 2014 invoice and the supporting documentation and found the same \$3,029 in salary costs for pay period ending July 23, 2014 was claimed on this invoice as well. As the Court invoiced 20 percent of its salary and benefit costs as an indirect cost, we also question the \$605 in indirect costs that were invoiced as a result of this error (\$3,029 x 20 percent). We expanded testing to other months and found this was a one-time error. As a result, the Court has unsupported Salary, Benefit and Indirect costs of \$3,634.

Criteria

Title 2 CFR 200.430 (i) Standards for Documentation of Personnel Expenses states all charges for salary and wages must be based on records that accurately reflect the work performed and must be supported by a system of internal controls that provides assurance the charges are accurate, allowable and properly allocated;

Policies and procedures provided to the Court in the *Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions* issued by the Judicial Council of California, dated June 2015, states, "The salaries and benefits of the court employees who work on AB 1058 program components (CSC and FLF) can be charged to the grant...for the time devoted and identified specifically to the program" (page 11).

JCC's Trial Court Financial Policies and Procedure Manual, Section 15, FIN 15.02 states, "6.4 Application of the Indirect Cost Rate 1. When the court bills any entity (private, local, state, or federal), the applicable indirect cost rate percentage in effect is applied to the direct salaries/wages and benefits listed in the billing..."

The Indirect Cost Rate Proposal certifies, "(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements."

Recommendation

The JCC should return \$3,634 for unsupported salary and benefits erroneously claimed twice, in July and August 2014, and the indirect costs that are tied to the unsupported salary and benefits. In the future the Court should develop procedures, such as a second level of review and a means to reconcile salary and benefits, prior to submitting the invoice to help ensure this does not occur again.

Agency Response



**SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF AMADOR**

500 ARGONAUT LANE • JACKSON, CA 95642
(209) 257-2681

December 6, 2016

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

RE: Judicial Council of California Contract Review Draft Audit Report

Dear Ms. Dailey:

Our responses to the finding and recommendation are as follows:

Finding 1 – Unsupported Personnel Costs - \$3,634

The Court agrees with the finding that we erred in claiming the same payroll twice.

Recommendation

The Court agrees with the recommendation.

Due to severe budget cuts, our Administrative Department was cut from five employees to two. Recently, we were able to restore a position, increasing the department to three. As a result, we are now in a position to have a second level review and do not anticipate future errors.

Sincerely,

Rob Klotz
CEO

J.S. Hermanson, Presiding Judge • Renee C. Day, Judge
Rob Klotz, Court Executive Officer

Evaluation of Response

On November 15 2016, OAC issued a draft report for the Court's review and response. We received the Court's written response to the draft report on December 6, 2016. The Court concurs with our finding and agrees with our recommendation regarding the \$3,634 in disallowed costs. The Court also agrees to implement a corrective action plan to have second level review that will avoid future errors.

The corrective action plan, if implemented as described above, should be sufficient to address this issue in the future. We will follow up in six months for the progress of the corrective action plan.

Pat Yoldi
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Scott Hunter
Audit Supervisor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment C– Kern Superior Court (AB 1058 Audit)

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of Kern**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of Kern**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVES, SCOPE AND METHODOLOGY.....	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
RESTRICTED USE.....	5
FINDING AND RECOMMENDATION	6
AGENCY RESPONSE	8
EVALUATION OF RESPONSE.....	10
AUDIT STAFF	11

**Judicial Council Contract Review
Superior Court of California, County of Kern
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipient monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California (JCC) who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court, County of Kern's (Court) CSC and FLF program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from non-custodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. *Title 45, Section 302.34* gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California judicial system. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the Courts under grant funding AB 1058. In SFY 2014-15, DCSS contracted the JCC for a total of \$55,171,367. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$1,365,855 in state and federal funds as follows: \$894,834 for the CSC and \$471,021 for the FLF program.

OBJECTIVES, SCOPE AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement #10-28821 for the CSC program and #10-28743 for the FLF program complied with applicable laws, rules, and regulations, including *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards set forth in Title 2 CFR Subtitle A Chapter II, Part 200* (Uniform Requirements), *Trial Court Financial Policies and Procedures Manual* (FIN Manual) and *Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions*.

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with *Government Auditing Standards*; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. § 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipient to ensure the sub-award is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and sub-award, and that the sub-award performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the sub-recipient's program operations. §200.336 *Access to records* provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Finding and Recommendation section of this report below, we found the Court did not have sufficient support for the independent contractor expense claimed during our audit period.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDING and RECOMMENDATION

Unsupported Contractor Costs – \$3,996

Condition

The Court lacked support for contracted costs claimed by independent court reporters (reporters). Specifically, the Court contracted with independent reporters at a daily rate of \$200 per diem and charged the entire daily rate to the AB 1058 child support program. Included in the request for payment was a certified Contractor Activity Log which recorded a portion of the reporters' time spent in the AB 1058 child support program activities, and a portion of the time in non-child support program activities. However, instead of allocating a portion of the \$200 per diem rate based on the percentage of time recorded in the Contractor Activity Log, the Court charged the entire \$200 per diem rate to the child support program. As a result, we found the Court over claimed \$3,996 in unsupported contracted reporter costs to the child support program.

Additionally, the Court did not have a current contract agreement or MOU in place to support contracted court reporter activity. Without the contract, there is no way to monitor and ensure the services were provided in full and paid in accordance with the contract terms.

Criteria

Title 2 CFR 200.403 Factors affecting allowability of costs requires costs to be adequately documented and consistent with the policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity. Section 200.405 states that costs are only allocable to the federal award in accordance to the benefits received and specifies that allocable costs may not be charged to federal award to overcome funding deficiencies. *200.318 General procurement standards (b)* requires the Court to maintain oversight and ensure contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

Title 45 CFR 75.351 defines the need and purpose of a contract, to obtain services, and to create a procurement relationship with the contractor.

Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, states, "The activity log is designed to calculate the total of all hours worked on all programs, including title IV-D support hours. This should be a total of 8 hours per day, unless a contractor is scheduled to work other than an 8 hour shift." (page 47).

Recommendation

The JCC should return \$3,996 for unsupported contracted court reporter costs. The Court should ensure contractors report their time accurately, and limit contract reporter

costs based on the percentage of direct labor hours actually spent working in the child support program. Further, the Court should establish a current contract agreement or MOU with its contracted court reporters, outlining the charges and the services provided. This way, the Court can verify the charges are accurate and the services were provided in full in accordance with the contract terms.

Agency Response



SUPERIOR COURT OF CALIFORNIA COUNTY OF KERN

January 12, 2017

CHARLES R. BREHMER
PRESIDING JUDGE

JOHN S. SOMERS
ASST. PRESIDING JUDGE

TERRY McNALLY
COURT EXECUTIVE
OFFICER & CLERK OF
THE COURT

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

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

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

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

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

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

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

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

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

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

Karen Dailey
Audit Manager
Office of Audits and Compliance
California Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 95741-9064

Dear Ms. Dailey,

Thank you for your follow-up phone call and extension to respond to the finding of Unsupported Contractor Costs of \$3,996.

In response, I will start with the correction of the finding. We have not used any pro tem court reporters in the DCSS courtroom for the past couple of years, so I do not anticipate any further problems with this finding.

That said, I wanted to again explain the rationale we used in deciding to charge the entire \$200 per day to the AB-1058 grant. The driving purpose in assigning a court reporter to that courtroom was for the DCSS cases. Any other work was incidental and since we pay \$200 per day regardless of time worked, we would have still paid the \$200 even if we had released the court reporter after the DCSS cases were complete.

Your recommendation was that the JCC should return \$3,996 for the unsupported contracted court reporter costs. During the audit, you discovered that our salary & benefit cost total was short due to a formula error. That amount totals \$11,900.65 and 66% of that amount would be \$7,854.43. I've attached copies of the invoice, both incorrect and corrected. This amount would more than offset the \$3,996 shortage, so any return should be unnecessary.

Sincerely,


Terry McNally
CEO

Evaluation of Response

On December 19, 2016, OAC issued a draft report for the Court's review and response. We received the Court's written response to the draft report on January 12, 2017. The Court concurs with our finding and to correct states they will not use contracted Court reporters in the future.

The corrective action plan, if implemented as described above, should be sufficient to address this issue in the future. We will follow up in six months for the progress of the corrective action plan.

Patricia Yoldi
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment D– Kings Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



July 20, 2017

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT REVIEW
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), final report on costs claimed under the Judicial Council of California contract by the Superior Court of California, County of Kings (Court). Our review was limited to examining Assembly Bill (AB) 1058 child support related costs claimed in state fiscal year 2014-15 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of AB 1058 child support grant funds.

OAC reviewed the Court's response to the draft report, including the corrective action identified by the Court in response to the reported findings. The findings have not changed and the results of the review are in the attached Evaluation of Response.

DCSS Administrative Services Division will issue a letter regarding the repayment and/or corrective action required in response to the findings in this report. OAC will follow up within six months from the date of this report to ensure the corrective action was taken by the Court.

We appreciate the assistance and cooperation of the Judicial Council and the Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in cursive script that reads "Karen Dailey".

KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of Kings**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of Kings**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVES, SCOPE AND METHODOLOGY.....	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
RESTRICTED USE.....	5
FINDINGS AND RECOMMENDATIONS	6
AGENCY RESPONSE	8
EVALUATION OF RESPONSE.....	11
AUDIT STAFF	12

**Judicial Council Contract Review
Superior Court of California, County of Kings
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipients monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California (JCC) who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court, County of Kings (Court) CSC and FLF program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal, state, and local partnership to collect child support from noncustodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. Title 45, Section 302.34 gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California Judicial System. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the courts under grant funding AB 1058. In SFY 2014-15, DCSS contracted the JCC for a total of \$55,171,367. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$440,449 in state and federal funds as follows: \$385,317 for the CSC and \$55,132 for the FLF program.

OBJECTIVES, SCOPE AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement #10-28824 for the CSC program and #10-28746 for the FLF program complied with applicable laws, rules, and regulations, including OMB Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards set forth in Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements), Trial Court Financial Policies and Procedures Manual (FIN Manual), and Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions.

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with Government Auditing Standards; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. § 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipients to ensure the subaward is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipient's program operations. §200.336 Access to records provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Findings and Recommendations section of this report, we found the Court had unsupported contractor costs related to the Family Law Facilitator Program and that IT equipment costs were charged during our audit period but not expensed or incurred until SFY 2015-16.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDINGS AND RECOMMENDATIONS

Finding 1 – Unsupported Contractor Costs – \$1,385

Condition

The Court paid \$1,385 to the Family Law Facilitator it contracts with for the billing period of December 22, 2014, to January 4, 2015. In reviewing the contractor activity logs, we found that the Facilitator had not provided any services to the FLF program because the Court was closed the entire week. However, the Court claimed charges on the January 2015 FLF invoices. Therefore, if no services were provided to the program, claimed charges will be disallowed.

Criteria

2 CFR 200.318 requires the Court to maintain oversight and ensure contractors perform in accordance with the terms, conditions, and specifications of its contracts.

2 CFR 200.405 states that costs are only allocable to the federal award in accordance to the benefits received.

2 CFR 200.403 requires costs to be adequately documented and consistent with the policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California states, "The activity log is designed to calculate the total of all hours worked on all programs, including title IV-D support hours. This should be a total of 8 hours per day, unless a contractor is scheduled to work other than an 8-hour shift."

Recommendation

The Court should review the contractor activity log and ensure whether service was provided to the program. This way, the Court can assure the charges are accurate and the services were provided in full, in accordance with the contract terms.

Finding 2 – Prior Period Costs

Condition

The Court purchased IT equipment in July 2015 for the FLF program and claimed those charges in the June 2015 supplemental invoice for SFY 2014-15. In reviewing the supporting documentation, we found the purchase order was created on June 30, 2015, but it was not approved until July 15, 2015. The Court indicated the purchase order was created before that date, but the expenditure may not be claimed until the cash

disbursement is made. As the order was placed on July 17, 2015, the disbursement was clearly made after this date. Furthermore, the shipment date was July 23, 2015. These facts indicate the claimed charges are considered an expenditure during SFY 2015-16 not SFY 2014-15.

Criteria

2 CFR 200.405 specifies that allocable costs may not be charged to a federal award to overcome funding deficiencies.

2 CFR 200.403 requires costs to be adequately documented and consistent with the policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

45 CFR 304.25 states that expenditures are considered to be made on the date on which the cash disbursements occur or the date to which allocated in accordance with 45 CFR 75.

45 CFR 75.439 requires capital expenditures to be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the Health and Human Services awarding agency.

Recommendation

The Court should follow AB 1058 guidelines, claim charges in the period in which the expenditure was paid, and then submit documentation to support the claimed charges on JC-1. Lastly, the JCC has an opportunity to ensure the courts understand and apply the JCC policies and procedures.

Agency Response



Office of the Court Executive
Superior Court of the State of California
County of Kings

JEFFREY E. LEWIS
Clerk of Court
and
Jury Commissioner

May 22, 2017

Ms. Karen Dailey, Audit Manager
Office of Audits and Compliance DCSS
P O Box 419064
Rancho Cordova CA 95741

Subject: Audit of the Child Support Commissioner and Family Law Facilitator Program for fiscal year 2014-15

Dear Ms. Dailey:

The Court has received and reviewed the audit findings of the California Department of Child Support Services for the AB 1058 Child Support and Family Facilitator Grant Programs.

Finding 1 – Unsupported Contractor Costs of \$1,385.

The Court is in agreement with this finding. Per the terms of our contract with the Family Law Facilitator, the Facilitator is paid on a biweekly basis for his services. In the future, hours worked, that are not providing services to the program, will not be billed to the program.

Finding 2 – Prior Period Costs

The Court operates on an accrual basis. The purchase in question was handled in this manner. The requisition and purchase order were issued prior to June 30, 2015 for the purpose of encumbering funds in the fiscal year 2014-15. A change in pricing caused the Court to revise the purchase order and purchase and pay for the goods in July 2015. We believed we were functioning under the guidelines of the AB 1058 Manual. However, upon careful review of the language, the Court agrees with the finding in that the actual purchase took place outside of the grant period and, therefore, will ensure compliance with AB 1058 guidelines and California Judicial Council policies and procedures.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Lewis".

Jeff Lewis

Court Executive Officer

Budget Category

The allocation set forth for in the contract is the maximum amount allowable for reimbursement of actual costs expended on the program components (CSC and FLF) throughout the applicable fiscal year only. For reimbursement, work must be provided during July 1, xxxx to June 30, xxxx, (*goods and services must be purchased* within the grant period and received before court's final claim), (*italics added*). Additionally, any and all obligations must be liquidated (vendor payment must be made) prior to court's final invoice. The court's final invoice must be received by Judicial Council Grant Accounting no later than September 30, xxx. Invoices received after that date will not be paid.

Evaluation of Response

On May 19, 2017, OAC issued a draft report for the Court's review and response. We received the Courts written response to the draft report on May 30, 2017. The Court concurs with our findings and provided a corrective action plan. If implemented as described, it should be sufficient to fully address these issues in the future. We will follow up in six months for the progress of the corrective action plan.

Audit Staff

Patricia Yoldi
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Scott Hunter
Audit Supervisor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



**JUDICIAL COUNCIL
OF CALIFORNIA**

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment E– Mendocino Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



July 11, 2017

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services, Office of Audits and Compliance, final report on the costs claimed under the Judicial Council of California (JCC) contract by the Superior Court of California, County of Mendocino (Court). Our review was limited to examining Assembly Bill 1058 (AB 1058) child support related costs claimed in state fiscal year 2014-15 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of AB 1058 child support grant funds.

Our review of the processes and procedures of Mendocino Court revealed weaknesses in accounting controls over the record keeping and reporting of fringe benefits. However, the results of this review, based on the evidence obtained to support the audit objectives, provide a reasonable basis to support the expenditures claimed by the Court for SFY 2014-15, and support the Court materially complied with applicable laws and regulations.

We appreciate the assistance and cooperation of JCC and Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in cursive script that reads "Karen Dailey".

KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of Mendocino**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of Mendocino**

TABLE OF CONTENTS

INTRODUCTION 3

BACKGROUND 3

OBJECTIVES, SCOPE, AND METHODOLOGY 4

AUDIT AUTHORITY 4

CONCLUSION 5

RESTRICTED USE 5

AUDIT STAFF 6

**Judicial Council Contract Review
Superior Court of California, County of Mendocino
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipient monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The court receives federal and state funds through a contract with the Judicial Council of California who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court, County of Mendocino (Court) CSC and FLF program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from noncustodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. *Title 45, Section 302.34* gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California Judicial System. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the courts under grant funding Assembly Bill (AB) 1058. In SFY 2014-15, DCSS contracted with the JCC for a total of \$55,171,367. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$275,247 in state and federal funds as follows: \$195,866 for the CSC and \$79,381 for the FLF program.

OBJECTIVES, SCOPE, AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement 10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement 10-28969 for the CSC program and 10-28753 for the FLF program complied with applicable laws, rules, and regulations, including *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* set forth in *Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements)*, *Trial Court Financial Policies and Procedures Manual* and *Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions*, and to ensure the Court has adequate IT controls over its payroll accounting system.

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with *Government Auditing Standards*; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. *Section 200.331* requires DCSS, as the pass through entity, to monitor the activities of the subrecipient to ensure the subaward is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipient's program operations. *Section 200.336 Access to records* provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

Our review of the processes and procedures of Mendocino Court revealed weaknesses in accounting controls over the record keeping and reporting of fringe benefits. However, the results of this review, based on the evidence obtained to support the audit objectives, provide a reasonable basis to support the expenditures claimed by the Court for SFY 2014-15, and support the Court materially complied with applicable laws and regulations.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

Sylvia Nolan
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Scott Hunter
Audit Supervisor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



**JUDICIAL COUNCIL
OF CALIFORNIA**

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment F– Napa Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



January 4, 2017

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102-3688

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT REVIEW
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), final report on costs claimed under the Judicial Council of California contract by the Superior Court of California, County of Napa (Court). Our review was limited to examining AB 1058 child support related costs claimed in fiscal year 2014-2015 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of the AB 1058 child support grant funds.

The OAC reviewed the Court's response to the draft report, including the corrective action identified by the Court in response to the reported finding. The finding has not changed and the results of the review are in the attached Evaluation of Response.

The DCSS Administrative Services Division will issue a letter regarding the repayment and/or corrective action required in response to the finding in this report. OAC will follow up within six months from the date of this report to ensure corrective action was taken by the Court.

We appreciate the assistance and cooperation of the Judicial Council and the Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in cursive script that reads "Karen Dailey".

KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of Napa**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of Napa**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVES, SCOPE AND METHODOLOGY.....	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
RESTRICTED USE	5
FINDING AND RECOMMENDATION	6
AGENCY RESPONSE	9
EVALUATION OF RESPONSE.....	14
AUDIT STAFF	15

**Judicial Council Contract Review
Superior Court of California, County of Napa
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipient monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California (JCC) who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court, County of Napa's (Court) CSC and FLF program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from non-custodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services (DCSS) is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. *Title 45, Section 302.34* gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California judicial system. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the Courts under grant funding AB 1058. In SFY 2014-15, DCSS contracted the JCC for a total of \$55,171,367. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$331,921 in state and federal funds as follows: \$249,779 for the CSC and \$82,142 for the FLF program.

OBJECTIVES, SCOPE AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement #10-28808 for the CSC program and #10-28758 for the FLF program complied with applicable laws, rules, and regulations, including *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards set forth in Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements)*, *Trial Court Financial Policies and Procedures Manual (FIN Manual)* and *Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions*.

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with *Government Auditing Standards*; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. § 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipient to ensure the subaward is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipient's program operations. §200.336 *Access to records* provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Finding and Recommendation section of this report below, we found the Court did not have sufficient support for the personnel expense claimed during our audit period. As indirect costs are based on supported personnel expense, the Court lacked support for a portion of the indirect costs claimed. Based on the sample of operating expenditures reviewed, we found the Court had sufficient support for claimed operating costs.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and LCSA and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDING and RECOMMENDATION

Finding 1 – Unsupported Salary and Benefits – \$267,187

Condition

For SFY 2014-15, we found the Court did not have support for salary, benefits or indirect costs claimed. Specifically, the Judicial Council of California AB 1058 grant instruction manual and annual training requires the Courts to allocate salary and benefits based on the actual hours that Court staff spend in the IV-D child support (AB 1058) grant program activities. However instead of documenting actual hours worked on the time reporting documentation (JC-4 timesheet), the Court staff record a certain number of hours to the AB 1058 program following an unauthorized project costing methodology. For example, Court supervisors are instructed to record 5.5 hours each day regardless of the amount of time actually spent in the AB 1058 program. Yet, the court staff and court supervisors “certify under penalty of perjury that this time sheet accurately represents actual time worked...” on the JC-4 timesheet. As a result, we deemed the time reporting documentation unreliable and unsupported. We found there is no support, in terms of direct labor hours, to allocate salary, benefit, or indirect costs to the AB 1058 grant program. Further, the Court did not have support for the project costing methodology used for instructing Court staff to record hours to the AB 1058 program and stated it was based on a time study that may have been performed over 10 years ago. The Court provided additional information, such as the number of court cases worked, to provide support of salary and benefits. The Uniform Requirements specify that case counts cannot be used, unless, advanced approval is given by the cognizant agency for indirect cost. Therefore, this documentation could not be used to support salary and benefits.

We did note that child support activity occurred at the court. In order to verify actual hours worked, we used an alternative procedure of reviewing Court calendars. We used these as support for the time the Court staff spent directly in child support activity (AB 1058 grant program) for the Court Commissioner, Courtroom Clerk and the Court Interpreters. As a result, we were able to verify \$39,187 in salary and benefits, and \$7,837 in indirect costs for actual labor hours reported as worked in the CSC program. For the FLF program, we allowed all claimed operating expense. For the CSC program, we allowed operating expense up to the contract limitation of \$15,250. As a result, we allowed \$17,710 in operating expense for both programs. However, we are questioning \$267,187 in unsupported, unauthorized, unallowable salary and benefit costs for SFY 2014-15 as follows:

Summary of Disallowed Costs:

SFY 2014-15	FLF	CSC	Combined
Total amount paid by JCC	\$82,142	\$ 249,779	\$331,921
Less: Allowable Operating Expenses	(2,460)	(15,250)	(17,710)
Total Salary and Indirect Questioned:	\$79,682	\$234,529	\$314,211
Less: Allowable Salary & Benefits - Calendar	-	(39,187)	(39,187)
Less: Allowable Indirect Costs - 20% of Salary	-	(7,837)	(7,837)
Total Disallowed Cost	\$79,682	\$187,505	\$267,187

Criteria

Title 2 CFR 200.430 (i) Standards for Documentation of Personnel Expenses states charges for salary and wages must be based on records that accurately reflect the work performed. These charges must:

- be supported by a system of internal controls that provides assurance the charges are accurate, allowable, and properly allocated;
- reasonably reflect the total activity for which the employee is compensated;
- encompass both federally assisted and all other activities;
- comply with established accounting policies and practices;
- support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works in more than one Federal award; a Federal award and non-Federal award...;
- budget estimates alone do not qualify as support for charges to Federal awards....

(5) For states, local governments and Indian tribes, substitute processes or systems for allocating salaries and wages to Federal awards may be used in place of, or in addition to, the records described in paragraph (1) *if approved by the cognizant agency for indirect cost*. Such systems may include, but are not limited to, random moment sampling, "rolling" time studies, case counts, or other quantifiable measures of work performed. (Italics Added).

Policies and procedures provided to the Court in the *Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions* issued by the Judicial Council of California, dated June of 2015, states, "The salaries and benefits of the court employees who work on AB 1058 program components (CSC and FLF) can be charged to the grant...for the time devoted and identified specifically to the

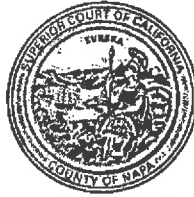
program” (Page 11). Page 15 provides specific guidance to the Courts on documenting allowable and not allowable hours that can be charged directly to the AB 1058 program when completing the time reporting documentation.

The JC-4 timesheet, signed by the employee and the employee’s supervisor, states, “I hereby certify under penalty of perjury that this time sheet accurately represents actual time worked...”

Recommendation

The JCC should return \$267,187 (\$79,682 for the FLF and \$187,505 for the CSC) for unsupported salary, benefits, and the indirect costs claimed in SFY 2014-15. In the future, the Court should require Court staff to document actual labor hours worked in the AB 1058 program instead of using an unapproved and unsupported project costing methodology. This way the salary and benefits allocated to the program will be supported by the percentage of actual labor hours worked directly in child support program activities. Further, indirect costs charged to the AB 1058 grant program must be supported by allowable, supportable salaries and benefits. The JCC may consider developing a process, such as on-site monitoring reviews, to ensure the courts understand and apply the JCC policies, procedures and federal regulation requirements.

Agency Response



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF NAPA**

Richard D. Feldstein
Court Executive Officer

825 Brown Street
Napa, CA 94559
(707) 299-1110

November 18, 2016

VIA EMAIL TO: dcssoac@dcss.ca.gov

Karen Dailey
Audit Manager
Office of Audits & Compliance
Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 98741-9064

Re: Response to DCSS Draft Audit Report of the Napa Superior Court

Dear Ms. Dailey:

The Napa Superior Court (court) is pleased to submit this written response to the State Department of Child Support Services (DCSS) regarding its audit of the court and the Child Support Enforcement Program (AB 1058 program). The audit focused on the court's claimed spending activity during fiscal year 2014-15, which included \$331,921 in total program spending for both the Child Support Commissioner grant (\$249,779) and the Family Law Facilitator grant (\$82,142).

In its report, DCSS concludes that \$267,187 -- or roughly 80 percent of the court's total spending -- was not adequately supported by documentation such as timesheets, logs, and court calendars. While the court agrees that its documentation for these costs may not have met the administrative standards required in its grant agreement, such spending did in fact take place, and DCSS acknowledges in its report that "child support activity occurred at the court." In the court's view, DCSS' recommendation to return \$267,187 will unnecessarily harm the court's ability to effectively serve litigants who request help in seeking or enforcing child support orders. In the sections that follow, the court provides further perspective on DCSS' audit findings and the court's current staffing, highlights the corrective action planned by the court, and describes the court's recent performance under the AB 1058 program.

Both the court's judicial officers and staff are firmly dedicated to financial and operational transparency and accountability. As a good steward of public funds, the court recognizes the importance and value of independent audits and fully supports DCSS' continued efforts to partner with the court to ensure the AB 1058 program is effectively serving children of California.

THE IMPACT OF COURT STAFFING

The court has limited staff and a shrinking budget, requiring that staff in the clerk's office be able to effectively address both DCSS-related cases under the AB 1058 program as well as other case types. As a result, court staff are frequently cross-trained on how to process a wide variety of different filings. This approach allows for the immediate processing and scheduling of child support matters as they are filed during the court's business hours. While larger courts may have the staff resources to assign specific individuals to support the AB 1058 program, this court lacks such heightened staffing levels and believes its current pooled staffing approach is the most effective. However, with the same court staff processing a wide variety of family law, probate, adoptions, and civil matters, the court has found that a formula-based time allocation method for charging personnel cost is the most reasonable approach. Such an approach is particularly necessary because often it is not readily apparent to employees whether or not a particular family law case encompasses a child support issue.

Furthermore, many operational tasks, general supervision, training, and other administrative efforts cannot be clearly segregated between DCSS' AB 1058 program versus the support services provided to other case types.

As with its court staff, the court's judicial officers are similarly responsible for hearing a wide variety of case types and there is not always a clear dividing line between cases that are served under the AB 1058 program and those that are not. The court believes that its limited staffing and its methods for assigning the work is important context for the reader when considering DCSS's findings and the timesheet requirements currently expected under the program.

THE COURT'S PLANNED CORRECTIVE ACTION

DCSS audit staff have determined that the court's time allocation methodology is inconsistent with existing grant requirements. In the long term, the court will work with the Judicial Council and DCSS to determine whether an alternative and more reasonable method of documenting personnel costs might be available to smaller courts. The court notes that federal regulations under 45 CFR 304.21 provides DCSS with the discretion to determine the method of calculating eligible expenditures by the courts, and that the current timesheet-based approach is only one of several possible methods that could be used. Nevertheless, recognizing the current grant requirements in the short term, the court is already in the process of implementing the following changes to its local administration of the AB 1058 program:

1. **Clerk's Office** – The processing of DCSS case documents and calendaring of events will be centralized and assigned to a single employee who will be better able to track actual time spent working on grant related activities through daily entries on his/her timesheet. To the extent that they can be identified, all case filing, data entry, and calendaring will be performed by this individual. In addition, all litigant inquires and requests will be directed to this staff member as well.
2. **Courtroom Support Staff** – Court reporter and courtroom clerk staff will be tracked in the same manner as Clerk's Office staff.
3. **Child Support Commissioner** – The Court Commissioner assigned to the DCSS calendar will document the exact time spent presiding over courtroom proceedings, reviewing case files in chambers, and coordinating DCSS matters with other court staff, attorneys, and local DCSS agency employees, and other eligible activities.
4. **Family Law Facilitator** – Instead of being available at any time during normal working hours, Self-Help staff will segregate a set number of hours per week on specific days for advising self-represented litigants seeking assistance with DCSS matters. During these limited times, Self-Help staff will keep a log of the amount of time spent on identified DCSS cases.

THE COURT'S PERFORMANCE UNDER AB 1058

The court recognizes and supports state and federal audits of AB 1058 grant funding. However, the court is concerned that those who read DCSS' audit report and the amount of disallowed cost may assume that significant portions of the work were not completed or that program services were not being offered to the public. Such an assumption would be false. While the court understands and accepts that it has not documented personnel costs in the manner currently prescribed by DCSS, the court is proud of its past contributions under the AB 1058 program. For example, during the period covered by DCSS' audit, court staff, and judicial officers:

1. Opened 269 new child support cases filed by the local child support agency
2. Received, filed, and processed thousands of cases documents related to DCSS filed cases
3. Calendared 1,710 matters in DCSS filed cases
4. Conducted courtroom hearings of all such calendared matters

5. Spent significant time training and overseeing the work performed by grant-funded staff, as well as coordinating justice system activities with the local child support agency
6. Assisted hundreds of self-represented litigants involved in child support matters by explaining court policies and procedures and assisting in the completion of court documents.

These statistics do not include activities and services provided to 170 general family law cases wherein the local child support agency entered into the case after the initial filing by the involved parents.

Given the important work noted above, the court believes that returning \$267,187 -- or 80 percent of the court's funding under AB 1058 -- would unnecessarily harm the court's ability to achieve these kinds of outcomes and effectively serve those who are seeking help in the courts.

The court sincerely thanks the DCSS auditors for their professionalism and for their efforts to improve the AB 1058 program. The court is hopeful that DCSS and the Judicial Council will be open to further dialogue that considers alternative methods for documenting personnel costs that would allow smaller courts, such as ours, to continue to focus the majority of our energies on serving the public and ensuring the continued financial support for California's children.

Sincerely,



Richard D. Feldstein
Court Executive Officer

rdf/crb

cc: Anna Maves, Supervising Attorney, CFCC Administration, Judicial Council of California
Grant Parks, Manager, Internal Audit Services, Judicial Council of California

Evaluation of Response

On October 28, 2016, OAC issued a draft report for the Court's review and response. We received the Court's written response to the draft report on November 16, 2016. We appreciate the thorough consideration of our reported findings. The Court concurs with our findings but disagrees with our recommendation regarding the \$267,187 in disallowed costs. The Court plans to implement a corrective action such as tracking actual labor hours staff spend working directly in the AB 1058 child support program as a basis for allocating salary and benefit costs. While the finding remains, the corrective action plan, if implemented as described, should be sufficient to address these issues in the future. We will follow up in six months for the progress of the corrective action plan.

Lucy Vang
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Scott Hunter
Audit Supervisor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment G– Placer Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



November 3, 2016

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102-3688

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT REVIEW
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), final report on the costs claimed under the Judicial Council of California contract by the Superior Court of California, County of Placer (Court). Our review was limited to examining AB 1058 child support related costs claimed in fiscal year 2014-2015 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of the AB 1058 child support grant funds.

The OAC reviewed the Court's response to the draft report, including the corrective action identified by the Court in response to the reported finding. The finding has not changed and the results of the review are in the attached Evaluation of Response.

The DCSS Administrative Services Division will issue a letter regarding the repayment and/or corrective action required in response to the finding in this report. OAC will follow up within six months from the date of this report to ensure the corrective action was taken by the Court.

We appreciate the assistance and cooperation of the Judicial Council and the Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in cursive script, appearing to read "Karen Dailey".

KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of Placer**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of Placer**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVE, SCOPE, AND METHODOLOGY	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
RESTRICTED USE.....	5
FINDING AND RECOMMENDATION	6
AGENCY RESPONSE	9
EVALUATION OF RESPONSE.....	13
AUDIT STAFF	14

**Judicial Council Contract Review
Superior Court of California, County of Placer
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipient monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services provided by the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California (JCC), which oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court of California, County of Placer's (Court) CSC and FLF programs for the state fiscal year (SFY) of July 1, 2014 through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from non-custodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior toward children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. *Title 45, Section 302.34* gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California Judicial System. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the Courts under grant funding AB 1058. In SFY 2014-15, DCSS contracted the JCC for a total of \$55,171,367, annually. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$508,804 in state and federal funds as follows: \$389,379 for the CSC and \$119,425 for the FLF program.

OBJECTIVE, SCOPE, AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC, and further limited to reviewing expenditures claimed by the Court under JCC contract agreement #10-28813 for the CSC program and #10-28759 for the FLF program. The object of the review was to ensure compliance with applicable laws, rules, and regulations, including *OMB Uniform Administrative Requirements; Cost Principles; and Audit Requirements for Federal Awards* set forth in *Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements); Trial Court Financial Policies and Procedures Manual (FIN Manual); and Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions*.

The audit was conducted in accordance with generally accepted *Government Auditing Standards*, except the OAC has not obtained an external peer review in the last three years. 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with *Government Auditing Standards*; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. § 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipient to ensure the sub-award is used for authorized purposes, in compliance with federal statutes and regulations and the terms and conditions of the federal award and sub-award and that the sub-award performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the sub-recipient's program operations. §200.336 *Access to records* provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Finding and Recommendation section of this report below, we found the Court did not have sufficient support for the personnel expense claimed during our audit period. As indirect costs are based on supported personnel expense, the Court lacked support for a portion of the indirect costs claimed. Based on the sample of operating expenditures reviewed, we found the Court had sufficient support for claimed operating costs.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDING and RECOMMENDATION

Finding 1 – Unsupported Salary and Benefits – \$325,170

Condition

For SFY 2014-15, we found the Court did not have support for salary, benefits, or indirect costs claimed. Specifically, the *Uniform Requirements* and the *Judicial Council of California AB 1058 Grant Instruction Manual* requires the Courts to allocate salary and benefits based on the actual hours Court staff spent directly working in the AB 1058 IV-D child support grant program activities. Instead of tracking actual hours worked on their timecard or JC-4 grant timesheet, we found Court staff used an alternate, unapproved, and unauthorized process of recording estimated hours. As a result, we found the JC-4 grant timesheets unreliable, and the percentage of salary, benefits, and indirect cost allocated to the claim unsupported.

We did note that child support activity occurred at the Court. In order to verify hours we used an alternative procedure to review Court Calendars, training records, and the Court Commissioner's July 2014 timesheet. For the Court Commissioner, Courtroom Clerks and the Court Interpreter, we accepted the Court Calendar as support when the court was hearing cases related to child support. This provided documentation of actual hours spent in the child support program. We noted that not all hours on the grant timesheet were supported. For example, some days in which court was in session, total hours claimed on the grant timesheet could not be supported. Specifically on July 24, 2014 and September 18, 2014, child support activity was scheduled after 10:00 am. As a result, the Court lacked support for the full 8 hour day of child support activity as claimed by the Courtroom Clerk on those days. We also accepted the Commissioner's July 2014 timesheet recording "in chambers work" as support for additional hours spent directly in child support activity for SFY 2014-15. Using this information, we were able to verify \$135,762 in salary and benefits, and \$27,152 in indirect costs for the CSC program.

For the remaining Court Staff in the CSC and FLF, the Court did not provide documentation to support hours worked directly in the child support program activities. We did note the Family Law Facilitator staff document appointments for child support cases on an Outlook calendar, but this information was not provided to the auditors. Instead, the number of cases from May 2015 was provided in support of salary and wages for the Court Clerks with estimated times assigned to each. The *Uniform Requirements* state "rolling" time studies can only be used if approved by the cognizant agency for indirect cost. As a result, we question \$325,170 in unsupported and unallowable salary and wages, and indirect costs claimed on the JCC contract during FY 2014-15 (\$117,536 for salary and indirect costs for the FLF program) + (\$207,634 in salary and indirect costs for the CSC program).

Criteria

Title 2 CFR 200.430 (j) Standards for Documentation of Personnel Expenses states charges for salary and wages must be based on records that accurately reflect the work performed. These charges must:

- be supported by a system of internal controls that provides assurance the charges are accurate, allowable, and properly allocated;
- reasonably reflect the total activity for which the employee is compensated;
- encompass both federally assisted and all other activities;
- comply with established accounting policies and practices;
- support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works in more than one Federal award; a Federal award and non-Federal award...;
- budget estimates alone do not qualify as support for charges to Federal awards....

(5) For states, local governments and Indian tribes, substitute processes or systems for allocating salaries and wages to Federal awards may be used in place of, or in addition to, the records described in paragraph (1) *if approved by the cognizant agency for indirect cost*. Such systems may include, but are not limited to, random moment sampling, "rolling" time studies, case counts, or other quantifiable measures of work performed. (Italics Added).

Policies and procedures provided to the Court in the *Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions* issued by the Judicial Council of California, dated June of 2015, states, "The salaries and benefits of the court employees who work on AB 1058 program components (CSC and FLF) can be charged to the grant...for the time devoted and identified specifically to the program" (Page 11). Page 15 provides specific guidance to the Courts on documenting allowable and not allowable hours that can be charged directly to the AB 1058 program when completing the time reporting documentation.

The JC-4 timesheet, signed by the employee and the employee's supervisor, states, "I hereby certify under penalty of perjury that this time sheet accurately represents actual time worked..."

Recommendation

The JCC should return \$325,170 to DCSS for unsupported salary, benefits and associated indirect costs claimed in SFY 2014-15 for the Court. In the future, the allocated claimed salary and benefit costs must be based on actual labor hours documented and directly worked in the IV-D child support AB 1058 grant program. Documentation that supports claimed costs must be prepared in accordance with the

JCC established policies, procedures, and federal regulations. The indirect costs charged to the AB 1058 grant program must be supported by allowable salaries and wages.

Agency Response



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

10820 JUSTICE CENTER DRIVE, ROSEVILLE, CALIFORNIA 95678
P.O. BOX 619072, ROSEVILLE, CALIFORNIA 95661

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

September 28, 2016

Ms. Karen Dailey, Audit Manager
Office of Audits and Compliance
Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 95741-9064

Transmitted via email to: DCSSOAC@dcss.ca.gov

Re: Response to DCSS' Contract Review Audit Report (Draft), dated September 8, 2016

Ms. Dailey,

The Superior Court of California, County of Placer (Court) appreciates the opportunity to respond to the draft audit report prepared by the California Department of Child Support Services (State DCSS). The audit was limited to a review of the Court's claimed expenditures under the Child Support Enforcement Program (AB 1058), which is a program comprised of federal, state, and local agencies. During the time period covered by the audit, fiscal year 2014-15, the Court received \$508,804 under its grant agreement with the Judicial Council of California, which disburses AB 1058 funds to the California Superior Courts on behalf of State DCSS. The Court has reviewed the State DCSS' Draft Audit Report, dated September 8, 2016, and offers the following perspectives on the audit's findings and recommendations.

The Court agrees that some of its employees used allocation estimates of their time when completing time sheets, time sheets that were ultimately used to charge to the AB 1058 program. The Court further agrees that using allocation estimates for a subset of the employees using this technique did not comply with federal regulations that apply to the AB 1058 program. The Court welcomed State DCSS' audit and has viewed this process as a productive and necessary element of the administrative partnership between State DCSS, the Judicial Council of California, and the Court in achieving the important mission and goals of the AB 1058 program. The Court is committed to rapidly

responding to the audit findings and working with State DCSS and the Judicial Council to implement corrective action.

As of the date of this response, significant corrective action has already occurred, including:

- **Family Law Facilitator** - Staff has been retrained and currently maintains daily logs of their time spent on the AB 1058 program. Due to the high frequency, but variable time, taken on these matters on a daily basis, staff now tracks time in increments of five minutes throughout the day and ultimately round up to the nearest 15 minutes when completing their official timesheets. Court staff retains the daily logs until timesheets are complete and submitted for the pay period.
- **Commissioner Program: Clerk's Office** – Full-time staff complete their timesheets each day and deduct time spent on non-grant related cases if such time exceeds 15 minutes. Staff members who split time between grant and non-grant activities track daily activity on the grant in 15 minute increments, should any such activity occur. Staff retains the daily logs until timesheets are complete and submitted for the pay period.
- **Direct Supervisor and Lead Staff** – The Court has taken corrective action for direct supervisors and lead staff, but is seeking additional clarification before closing this item. At this time, these staff only charge time directly working on a DCSS case and do not charge any general supervision time. The Court believes this practice results in the under reporting of grant activities. The Court will seek additional clarification regarding the appropriate method of calculating supervisory time from the Judicial Council and State DCSS. Specifically, the extent to which OMB Circular A-87, Attachment B, Section 8(h)(6)(b) may be relied upon to adequately account for general supervision of grant employees.

Based on the material provided as part of the Draft Report, the Court does not believe any corrective action is needed related to the Commissioner or other courtroom personnel.

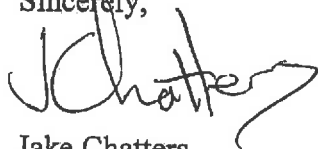
Although the Court has taken the above actions, it respectfully disagrees with the audit recommendation that the Judicial Council return \$325,170 for unsupported program costs and believes additional context is needed to place the audit findings in perspective. The primary evidence for the auditor's findings is the statements of some court employees, made openly and honestly, that their timesheets were based on their best estimates of time spent supporting the program. Although the Court acknowledges that its timekeeping practices must and will be improved, disallowing \$325,170 in claimed costs (or roughly 64% of the Court's entire costs) seems counterproductive and unnecessarily harmful given the important work of the AB 1058 program at the Court.

Federal regulations (2 CFR 200.430) state that costs must both be reasonable for the services rendered and supported by specific levels of documentation. The Court

appreciates that the State DCSS auditors acknowledge in the Draft Audit Report that “child support activity occurred at the [Placer] court” and do not otherwise conclude that the amounts charged were either excessive or unreasonable based on the work performed. Again, while the Court acknowledges the deficiencies in timekeeping practices, the Court highlights that there was no conclusion that these documentation deficiencies resulted in unreasonable charges to the AB 1058 program. The Court is deeply concerned that the recommended, significant, financial penalty will only hinder its future efforts to work with State and local DCSS in efforts to further improve outcomes. The Court already maintains a highly functioning collaboration with the local child support agency, which includes implementing innovative programs to reduce costs for the local agency and speed the delivery of services for litigants. Financial penalties will only serve to limit these collaborations and the services the Court is able to offer to those seeking child support orders.

Regardless of the Court’s concern regarding the recommended penalty, the Court remains committed to supporting the AB 1058 Program goals and in working with the State DCSS, our local child support agency, and the Judicial Council on continued efforts to meet, and wherever possible exceed, program objectives and outcomes.

Sincerely,



Jake Chatters
Court Executive Officer
Superior Court of California, County of Placer

cc: Hon. Alan V. Pineschi, Presiding Judge, Superior Court of California, County of Placer
Ms. Anna Maves, Supervising Attorney, CFCC Administration, Judicial Council of California
Mr. Grant Parks, Manager, Internal Audit Services, Judicial Council of California

Evaluation of Response

On September 8, 2016, OAC issued a draft report for the Court's review and response. We received the Court's written response to the draft report on September 28, 2016. The Court concurs with our findings but disagrees with our recommendation regarding the \$325,170 in disallowed costs. The Court cites the fact that child support related activity did occur at the Court even if the timekeeping practices were not in accordance with the federal requirements. As the regulations were not adhered to, our finding remains. However, the Court provided a corrective action plan that if implemented as described, it should be sufficient to fully address these issues in the future. We will follow up in six months for the progress of the corrective action plan.

Audit Staff

Patricia Yoldi
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA, Auditor In Charge
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment H– San Diego Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



March 23, 2017

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT REVIEW
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services, Office of Audits and Compliance, final report on costs claimed under the Judicial Council of California contract by the Superior Court of California, County of San Diego (Court). Our review was limited to examining AB 1058 child support related costs claimed in fiscal year 2014-2015 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of the AB 1058 child support grant funds.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We appreciate the assistance and cooperation of the Judicial Council and the Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in cursive script that reads "Karen Dailey".

KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of San Diego**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of San Diego**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVES, SCOPE, AND METHODOLOGY.....	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
NOTEWORTHY ACCOMPLISHMENTS	5
RESTRICTED USE.....	5
AUDIT STAFF	6

**Judicial Council Contract Review
Superior Court of California, County of San Diego
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipient monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The court receives federal and state funds through a contract with the Judicial Council of California who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court, County of San Diego (Court) CSC and FLF program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from noncustodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. *Title 45, Section 302.34* gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California Judicial System. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the courts under grant funding AB 1058. In SFY 2014-15, DCSS contracted the JCC for a total of \$55,171,367. For the period July 1, 2014 through June 30, 2015, the JCC reimbursed the Court \$3,162,510 in state and federal funds as follows: \$2,375,647 for the CSC and \$786,863 for the FLF program.

OBJECTIVES, SCOPE, AND METHODOLOGY

The review was conducted for the period July 1, 2014 to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement 10-28816 for the CSC program and 10-28766 for the FLF program complied with applicable laws, rules, and regulations, including *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* set forth in *Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements)*, *Trial Court Financial Policies and Procedures Manual* and *Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions*.

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with *Government Auditing Standards*; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. *Section 200.331* requires DCSS, as the pass through entity, to monitor the activities of the subrecipient to ensure the subaward is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipient's program operations. *Section 200.336 Access to records* provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

The results of this review, based on the evidence obtained to support the audit objective, provide a reasonable basis to support the expenditures claimed by the Court in San Diego County for SFY 2014-15, and materially complied with applicable laws, rules, and regulations.

NOTEWORTHY ACCOMPLISHMENTS

We found areas of noteworthy accomplishments at the Court. For example our audit revealed the Court followed good internal control processes related to our audit objectives, such as well documented policies and procedures, approvals for expenditures, and the proper recording of transactions. We further found the Court had sufficient support for the expenditures sampled, included documented contract agreements for vendors, adhered to the bidding and procurement process, and sufficient support for the allowability of claimed costs.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

Patricia Yoldi
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Scott Hunter
Audit Supervisor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services



JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 10/19/2017

Action Item #5 – (Action Required)

External Audit Report – Department of Child Support Services

Attachment I– San Joaquin Superior Court (AB 1058 Audit)

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



August 14, 2017

Mr. Martin Hoshino, Administrative Director
Judicial Council of California
455 Golden Gate Avenue
San Francisco, California 94102

**SUBJECT: JUDICIAL COUNCIL OF CALIFORNIA CONTRACT
FINAL AUDIT REPORT**

Dear Mr. Hoshino:

Enclosed is the California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), final report on the costs claimed under the Judicial Council of California contract by the Superior Court of California, County of San Joaquin (Court). Our review was limited to examining Assembly Bill (AB) 1058 child support related costs claimed in state fiscal year 2014-15 for the Child Support Commissioner and the Family Law Facilitator programs. This engagement was performed to satisfy federal and state mandated subrecipient monitoring of the AB 1058 child support grant funds.

OAC reviewed the Court's response to the draft report, including the corrective action identified by the Court in response to the reported findings. The findings have not changed and the results of the review are in the attached Evaluation of Response.

DCSS Administrative Services Division will issue a letter regarding the repayment and/or corrective action required in response to the findings in this report. OAC will follow up within six months from the date of this report to ensure the corrective action was implemented by JCC.

We appreciate the assistance and cooperation of the Judicial Council and the Court staff during the review. If you have any questions regarding this report, please contact me at (916) 464-5520.

Sincerely,

A handwritten signature in cursive script that reads "Karen Dailey".

KAREN DAILEY
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Enclosure

**Department of Child Support Services
Office of Audits and Compliance**

**Judicial Council of California Contract
Review Audit Report**

**Superior Court of California
County of San Joaquin**



**Prepared by:
Office of Audits and Compliance**

**CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of San Joaquin**

TABLE OF CONTENTS

INTRODUCTION.....	3
BACKGROUND	3
OBJECTIVES, SCOPE, AND METHODOLOGY.....	4
AUDIT AUTHORITY.....	4
CONCLUSION	5
RESTRICTED USE.....	5
FINDINGS AND RECOMMENDATIONS	6
AGENCY RESPONSE	10
EVALUATION OF RESPONSE.....	13
AUDIT STAFF	14

**Judicial Council Contract Review
Superior Court of California, County of San Joaquin
Department of Child Support Services
Office of Audits and Compliance
Audit Report**

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipients monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court, County of San Joaquin (Court) CSC and FLF program for the state fiscal year (SFY) of July 1, 2014, through June 30, 2015.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from non-custodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. Title 45, Section 302.34 gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California Judicial System. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the courts under grant funding Assembly Bill (AB) 1058. In SFY 2014-15, DCSS contracted the JCC for a total of \$55,171,367. For the period July 1, 2014, through June 30, 2015, JCC reimbursed the Court \$998,842 in state and federal funds as follows: \$747,023 for the CSC and \$251,819 for the FLF program.

OBJECTIVES, SCOPE, AND METHODOLOGY

The review was conducted for the period July 1, 2014, to June 30, 2015. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement #10-28971 for the CSC program and #10-28972 for the FLF program complied with applicable laws, rules, and regulations, including OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards set forth in Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements), Trial Court Financial Policies and Procedures Manual (FIN Manual) and Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions.

The audit was conducted 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. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with Government Auditing Standards; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. Section 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipients to ensure the subaward is used for authorized purposes, in compliance with the federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipients program operations. Section 200.336 Access to records provides DCSS the right to access any pertinent documents.

Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Findings and Recommendations section of this report, we found the Court did not have sufficient support for some personnel expenses claimed in the CSC program for the Commissioner and Courtroom Clerk. As indirect costs are based on supported personnel expenses, the Court lacked support for a portion of the indirect costs claimed. Based on the sample testing of operating expenditures reviewed, we found the Court did not have sufficient support of claimed operating costs for a portion of the Bailiff's invoices.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDINGS AND RECOMMENDATIONS

Finding 1 – Unsupported Personnel Expenses – \$65,254

Condition

In SFY 2014-15, we found the court did not have support for the salary, benefits, and indirect costs claimed for the Commissioner and Courtroom Clerk. Specifically, the Judicial Council of California AB 1058 grant instruction manual and annual training requires the courts to allocate salary and benefits based on the actual hours that court staff spent in the IV-D child support (AB 1058) grant program activities. However, instead of documenting actual hours worked on the time reporting documentation, the Court staff recorded a predetermined number of hours to the AB 1058 program. For example, we found the courtroom clerk used a sample JC-4 timesheet of a previous employee to record 7.5 hours each day regardless of the amount of time actually spent in the AB 1058 program. This is not in accordance with JCC policy and procedures, nor is it in accordance with federal regulations. Further, the Commissioner recorded all hours to the AB 1058 program, even though some hours in court were spent in non-IV-D activity. The court staff signed and dated the JC-4 timesheet which states the staff “certify under penalty of perjury that this time sheet accurately represents actual time worked...”

We reviewed the Court calendar of November and December 2014 and found the Court calendar recorded both AB 1058 and non-AB 1058 activity. The Court staff verified non-AB 1058 activity occurs in the CSC courtroom. This indicates that the same Commissioner and Courtroom Clerk were handling both child support and non-child support cases concurrently.

Using alternative methods, we accepted supplemental documents provided by the court to support the claimed charges. Specifically, we reviewed Courtroom Calendars and recorded cases to allocate the AB 1058 and non-AB 1058 activity, and used this allocation in support of time expensed directly to the child support program for the Court Commissioner and the Courtroom Clerk’s salary and benefit costs. As a result, we were able to reasonably verify \$504,474 in salary and benefits, and \$64,169 in indirect costs to the CSC program as follows:

Total Disallowed Salary, Benefits, and Indirect Costs (SFY 2014-15)		
<u>Description</u>	<u>Salary and Benefits</u>	<u>Indirect</u>
Total Salary and Benefits Claimed	\$562,364	\$71,533
Less: Supported Allocation of Salary and Benefits	\$504,474	\$64,169
Total Disallowance (Unsupported)	\$57,890	\$7,364
Total Disallowed Salary, Benefits, Indirect Costs		\$65,254

Criteria

Title 2 CFR 200.430 (i) Standards for Documentation of Personnel Expenses states all charges for salary and wages must be based on records that accurately reflect the work performed. These charges must be:

- supported by a system of internal controls that assure charges are accurate, allowable and properly allocated;
- reasonably reflects the total activity for which the employee is compensated;
- encompasses both federally assisted and all other activities and
- complies with the established accounting policies and practices.

Policies and procedures provided to the Court in the Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, states, "The salaries and benefits of the court employees who work on AB 1058 program components (CSC and FLF) can be charged to the grant...for the time devoted and identified specifically to the program" (page 11). Page 15 provides specific guidance to the courts on documenting allowable and non-allowable hours that can be charged directly to the AB 1058 program when completing time reporting documentation.

The JC-4 timesheet, signed by the employee and the employee's supervisor, states, "I hereby certify under penalty of perjury that this time sheet accurately represents actual time worked...."

Recommendation

The JCC should return \$65,254 to DCSS for unsupported salary, benefit and indirect costs claimed in SFY 2014-15. The JCC has an opportunity to strengthen its processes by working collaboratively with the courts to develop a methodology that supports claimed costs. The JCC may consider developing a process, such as on-site monitoring reviews, to ensure the courts understand and apply the JCC policies, procedures, and federal regulation requirements which must be followed to support claimed AB 1058 costs.

Finding 2 – Unsupported Operating Expenses – \$35,838

Condition

For SFY 2014-15, we found the Court did not have support for \$35,838 in operating expenses for the Court's bailiff. Specifically, we reviewed the operating costs for SFY 2014-15 and found the Court invoiced the CSC program for \$113,471 in operating expenses paid to the San Joaquin Sheriff's Department for bailiff services. To support the bailiff's costs, the bailiff on duty completed time reporting documentation (Activity log) with 8 hours spent directly (100 percent) in child support activity each day.

However, the Court Calendar and discussion with Court staff revealed both child support and non-child support activity occurred in the CSC courtroom.

Using alternative methods, we accepted supplemental documents provided by the court to support the claimed operating expenses for the bailiff. Specifically, we reviewed Courtroom Calendars and recorded case activity to allocate charges based on the reported AB 1058 and non-AB 1058 activity. As a result, we were able to reasonably verify \$77,633 in bailiff services costs. However, we are questioning \$35,838 in unsupported, unallowable costs, for SFY 2014-15 as follows:

Total Disallowed Bailiff Expenses (SFY 2014-15)	
<u>Description</u>	<u>Expenses</u>
Total Operating Expenses Claimed for Bailiff	\$113,471
Less: Supported Allocation of Bailiff Services	\$77,633
Total Disallowed Bailiff Expenses	\$35,838

We also found the Court paid for telecommunication charges provided by the County of San Joaquin but did not have an MOU or contract agreement for these services.

Criteria

Title 2 CFR 200.403 Factors affecting allowability of costs requires costs to be adequately documented and consistent with the policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity. Section 200.405 states that costs are only allocable to the federal award in accordance with the benefits received and specifies that allocable costs may not be charged to federal award to overcome funding deficiencies. 200.318 General procurement standards (b) requires the Court to maintain oversight and ensure contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

Title 45 CFR 75.351 defines the need and purpose of a contract, to obtain services and to create a procurement relationship with the contractor.

AB 1058 Grant Manual states, "The court must have a written agreement with the party if the program activities are performed by a party other than the court; for example, contracted facilitator or commissioner services. The court must submit a copy of the agreement to Judicial Council Grant Accounting Unit. The court claims will not be processed for payments until the court provides a copy of the agreement to Judicial Council Grant Accounting Unit."

Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, states, "The activity log is designed to calculate the total of all hours worked

on all programs, including title IV-D support hours. This should be a total of 8 hours per day unless a contractor is scheduled to work other than an 8-hour shift" (page 47).

Recommendation

The JCC should return \$35,838 to DCSS for unsupported operating costs related to the bailiff's salary and benefits paid to the San Joaquin Sheriff's Department for SFY 2014-15. The percentage of operating costs for the bailiff's salary and benefits must be allocated based on the actual labor hours directly worked in the AB 1058 grant program and must be claimed in accordance with the JCC established policies, procedures, and federal regulations. Further, contracted telecommunication costs should be supported by an MOU agreement or contract agreement which outlines the services that will be provided including the cost. This way, the Court can verify charges are accurate and provided in accordance with agreement terms.

The JCC has an opportunity to strengthen its processes by working collaboratively with the courts to develop a methodology that supports claimed costs. The JCC may consider developing a process, such as on-site monitoring reviews, to ensure the courts understand and apply the JCC policies, procedures, and federal regulation requirements that must be followed to support the claimed AB 1058 costs.

Agency Response



Superior Court of California, County of San Joaquin

222 E. Weber Avenue, Room 303

P.O. Box 201022

Stockton, CA 95201

Telephone: (209) 992-5695

July 17, 2017

Ms. Karen Dailey, Audit Manager
Office of Audits and Compliance
Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 98741-9064

Re: Response to DCSS Draft Audit Report of the San Joaquin Superior Court

Dear Ms. Daily:

The San Joaquin County Superior Court (Court) is pleased to submit this written response to the State Department of Child Support Services (DCSS) regarding its audit of the Court and the Child Support Enforcement Program (AB 1058 program). The audit focused on the Court's claimed spending activity during fiscal year 2014-15, which included \$998,842 in total program spending for both the Child Support Commissioner grant (\$747,023) and the Family Law Facilitators grant (\$251,819). At the outset, the Court would like to thank the DCSS auditors for their professionalism and for their willingness to consider additional documentation as they finalized the two audit findings contained in this draft report.

The Court views the audit as a valuable opportunity to both collaboratively work with DCSS and to further improve its grant administration practices.

DCSS concludes that \$101,092—or roughly 10 percent of the court's total spending—was not adequately supported by timesheets or corroborating documentation, such as court calendars. As a result, DCSS recommends that the Judicial Council of California (Judicial Council), which receives AB 1058 funding from DCSS and provides it to the Court, return this amount to DCSS. Although the Court agrees it can improve its administrative timekeeping practices—and has already initiated taking corrective action based on DCSS' findings—the Court believes returning \$101,092 would unnecessarily harm the Court's ability to effectively serve litigants who request help in seeking or enforcing child support orders. The Court has limited financial resources and returning such a large sum, if even possible, is unnecessary to ensure the Court takes corrective action in response to the audit. Further, the Court is concerned that those who read the DCSS' audit report and the amount of disallowed cost may assume that significant portions of the work were not completed, or that program services were not being offered to the public. Such an assumption would be false. In fiscal year 2014-15, the Court opened 3,099 new Child Support Cases, with our Commissioner hearing 2,589 AB 1058 cases. DCSS's audit focused only on reviewing administrative aspects of the AB 1058 program—particularly employee timesheets—and did not also include a review of the Court's actual performance in processing AB 1058 cases or in promptly responding to its local partner agencies.

Ms. Karen Dailey, Audit Manager
Office of Audits and Compliance
July 17, 2017
Page 2

While we fully accept the audit's findings, we believe DCSS' audit report should be used as tool to promote improvement and not financially harm the Court's AB 1058 program, which is otherwise meeting its performance objectives.

The court staff that works on AB 1058 cases participated in the Judicial Council's AB 1058 Timekeeping Webinar training on June 23, 2017. In addition, we will provide refresher training to all of the staff that work on AB 1058 cases, and will emphasize the requirement that they only record the actual time spent supporting the AB 1058 program on their timesheet (instead of providing their best or most reasonable estimates). The Court has also developed a process to review completed timesheets on a monthly basis to ensure these requirements are followed in actual practice. The Court will be working with the Judicial Council—and hopefully DCSS—to reach a consensus on a more administratively feasible alternative to the current timesheet process. The Court believes the focus of its employees should be directed towards fulfilling the mission of the AB 1058 program by serving the public, and not diverting limited staff time towards preparing overly precise timesheets on an hour-by-hour, day-by-day basis. The Court believes that alternative approaches, such as working with DCSS to perform periodic time studies that would support a mutually agreeable reimbursement rate for each AB 1058 case, may strike a more appropriate balance between staff effort and program accountability. The Court notes that federal regulations do not specifically require grant recipients to use timesheets when charging personnel costs to federal awards. Further, federal regulations at 45 CFR 304.21(c) provides DCSS (as the State IV-D agency) with the discretion for determining the method of calculating eligible expenditures by courts under its cooperative agreements.

Again, the Court greatly appreciates the time and effort of DCSS and looks forward to further discussions as we maximize the important work of the AB 1058 program to benefit California's most vulnerable children.

Sincerely,



Rosa Junqueiro
Court Executive Officer

cc: Hon. Jose L. Alva, Presiding Judge, Superior Court of California, County of San Joaquin
Ms. Anna Maves, Supervising Attorney, CFCC Administration, Judicial Council of California
Mr. Grant Parks, Principal Manager, Audit Services, Judicial Council of California

Evaluation of Response

On July 10, 2017, OAC issued a draft report for the Court's review and response. We received the Court's written response to the draft report on July 21, 2017.

The court concurs with our findings, has implemented additional training for staff, second level of review of the timesheets, and plans to work with the JCC to develop alternative methods of tracking staff and contractor time. The JCC should continue to work with the court to determine if the new methodology is sufficient to fully address these findings and complies with regulation and JCC established policies and procedures. We will follow up with the JCC in six months to determine the sufficiency of the corrective action implemented.

Patricia Yoldi
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi, CPA
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Scott Hunter
Audit Supervisor
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

