



# JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND  
FINANCIAL ACCOUNTABILITY FOR THE  
JUDICIAL BRANCH

[www.courts.ca.gov/auditcommittee.htm](http://www.courts.ca.gov/auditcommittee.htm)  
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## ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

### MINUTES OF OPEN MEETING WITH CLOSED SESSION

April 17, 2018

12:16pm – 12:49pm

Conference call, 1-877-820-7831

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**Advisory Body Members Present:** Hon. David Rosenberg, Hon. Peter Siggins, Hon. Mary Ann O'Malley, Hon. Susan Matcham, Mr. Kevin Harrigan, Mr. Kevin Lane, Ms. Sherri Carter and Mr. Phil Jelichich

**Advisory Body Members Absent:** Ms. Tania Ugrin-Capobianco

**Others Present:** Mr. Grant Parks

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#### OPEN MEETING

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#### Call to Order and Roll Call

The chair called the meeting to order at 12:16pm, and took roll call.

#### Approval of Minutes

The advisory body reviewed and approved the minutes of the January 18, 2018, Advisory Committee on Audits and Financial Accountability for the Judicial Branch meeting.

**Opening comments:** Judge Rosenberg noted that committee members in the future might be reviewing audits of courts on which one of them may sit. For example, the State Controller's Office (SCO) is currently auditing Yolo Superior Court, so Judge Rosenberg has decided he would likely recuse himself when that audit is discussed to avoid any appearance of a potential conflict. Judge Rosenberg indicated that recusal decisions are ones that committee members will need to evaluate for themselves should an audit of their court come before the committee. Judge Rosenberg also noted the committee will soon have a heavy work load as various audits of different entities come up for discussion. Judge Rosenberg has some concern as to whether this committee is sufficiently staffed to handle all of the audits that will come before the committee for review and comment, while allowing the committee to be proactive in its role. Judge Rosenberg stated his belief that all committee members share this concern and there will be further discussion on that at some point in the future.

Judge Rosenberg asked Justice Siggins if he had any opening remarks. Justice Siggins indicated he had no opening comments.

Judge Rosenberg proceeded with asking members if they had an opportunity to review the prior meeting's minutes and whether there were any needed additions or deletions. Hearing no comments, Judge O'Malley offered a motion to approve the minutes, which Justice Siggins seconded. With no further discussion by committee members, the minutes of January 18, 2018 meeting were approved by unanimous voice vote of the committee members present.

Moving to the public portion of the meeting, Judge Rosenberg asked committee staff if any public comments had been received in advance of today's meeting. Mr. Parks replied that no written comments had been received and advised that the public was in *listen only* mode on the conference call.

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## **DISCUSSION AND ACTION ITEMS (ITEM 1)**

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### **Info 1**

#### **Report from Audit Services (Information Only)**

Mr. Parks provided an overview of the those audits performed by the Judicial Council's Office of Audit Services that are likely to come before the audit committee in May (3<sup>rd</sup> District of the Courts of Appeal) and in June (Solano, Colusa and Calaveras). Also in May, the Judicial Council's Office of Legal Services will present proposed updates to the Judicial Branch Contracting Manual (JBCM), given the audit committee's responsibility to review and approve proposed changes before forwarding them to the Judicial Council for formal adoption. Audit committee staff are working with staff from Legal Services to ensure audit committee members obtain the proposed changes to the JBCM well before May's meeting.

Mr. Parks also provided a brief overview of staffing levels within Audit Services, reporting that its two senior auditor positions have now been filled and the final two remaining vacancies are currently in recruitment and are expected to be filled in late-May / early-June.

Mr. Parks also provided information on the Court Innovations Grant (CIG) Program, which is a program that is included in the annual audit plan. Spending to date has been somewhat limited, so Audit Services has yet to identify specific courts and grants for audit. Audit Services will continue to monitor CIG program spending to determine when best to initiate audits of these grant awards.

Mr. Parks then moved to a discussion on external audits performed by non-judicial branch entities. Specifically, the SCO is completing its audit at Yolo Superior Court and has also been working at Sacramento and Amador superior courts. The remaining three courts (San Mateo, Tehama, and Solano) are expected to be completed sometime in July. On April 26<sup>th</sup> the State Auditor's office will issue its performance audit report on the State's "penalty assessment funds." No findings or recommendations directed at the Judicial Council are expected.

Finally, the Department of Child Support Services (DCSS) substantially completed three additional audits of the AB 1058 program (Colusa, Fresno, and Glenn), but has not finalized these reports.

Mr. Parks indicated he would share these audit reports with the committee once they are complete and DCSS indicates they can be shared publicly. The Judicial Council's executive management team are still attempting to reach an agreement with DCSS's executive management regarding previous audit findings and the related questioned costs.

## Info 2

### General Discussion by Members of the Committee (Information Only)

Judge Rosenberg asked if any member had items they wished to discuss. Hearing no requests to comment on any matter, Judge Rosenberg moved to the next agenda item which would be in closed session.

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## ADJOURNMENT

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There being no further open meeting business, the meeting was adjourned to closed session at 12:29 p.m.

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## CLOSED SESSION

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### Item 1

#### Draft Audit Report of the Superior Court of California, County of Butte – Rule of Court 10.75(d) (6)

##### Non-final audit reports or proposed responses to such reports

**Action:** Committee unanimously approved the public posting of Audit Services' draft audit report of Butte Superior Court, per California Rules of Court, Rule 10.63(c) (1).

### Item 2

#### Draft Committee Letter to the Court Executives Advisory Committee Regarding JBSIS Data Quality Standards – 10.75(d)(6)

##### Non-final audit reports or proposed responses to such reports

**Action:** In response to previous audit findings regarding JBSIS case filings data, the Committee unanimously approved the drafting of a letter to CEAC's JBSIS working group to encourage the development of additional data quality standards.

Adjourned closed session at 12:49 p.m.

Approved by the advisory body on enter date.



## JUDICIAL COUNCIL OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND  
FINANCIAL ACCOUNTABILITY FOR THE  
JUDICIAL BRANCH

Meeting Date: 05/23/2018

### **Informational Item #1 – (No Action Required)**

#### **Report from Audit Services**

##### **Status Update – Judicial Council’s Audit Services**

Audit Services has completed audit work and issued audit findings to the following three courts for their perspective and response. We anticipate presenting these audit reports to the committee in our June meeting.

- Solano Superior Court
- Colusa Superior Court
- Calaveras Superior Court

Audit Services is now recruiting for its final vacancy, which is an auditor position that will assist with performing audits of the superior and appellate courts. Once filled, Audit Services will have a total of 14 auditors, 8 of whom focus on performing audits of the superior and appellate courts per the annual audit plan.

In July, I expect to present the audit committee with the annual audit plan for fiscal year 2018-19. A rough draft of the FY 18-19 audit plan is included as **Attachment A**, so that committee members who wish to provide comments or input on next year’s plan may do so (in either this meeting or subsequently).

##### **Spending Status under Courts Innovations Grant Program**

The current year’s audit plan calls for Audit Services to initiate reviews of court compliance with the terms and conditions of the Court Innovations Grant (CIG) Program. The Legislature provided the judicial branch with \$25 million in spending authority during the 2016-17 Budget Act. To date, the Judicial Council has awarded over \$22.3 million for collaborative courts, self-help programs, and other grant projects aimed at achieving other efficiencies.

Audit Services has been monitoring CIG grant activity, and notes that the Judicial Council has disbursed roughly \$9.9 million, of which \$2.9 million (or roughly 30%) have been spent per court expenditure records in Phoenix. Audit Services has decided it is prudent to delay CIG audits until more courts have progressed further in their individual grant projects. The attached

table (**Attachment B**) depicts CIG disbursements and spending through early-May 2018. The Legislature has made CIG funding available until June 30, 2020, after which any unexpended funds will revert to the State's General Fund.

### **Status Update – External Governmental Audit Organizations**

#### ***State Controller's Office***

Aside from discussing the State Controller's Office (SCO) audit of Yolo Superior court during today's meeting, SCO audit staff report the following status for the remaining 5 superior courts that are part of the pilot audit program per Government Code, 77206(h).

- Sacramento (fieldwork completed by 5/10/18)
- Amador (fieldwork completed by 6/1/18)
- San Mateo (entrance conference scheduled for 5/16/18)
- Sonoma (entrance conference scheduled for 5/22/18)
- Tehama (entrance conference scheduled for 6/11/18)

#### ***State Auditor's Office***

On April 26<sup>th</sup>, the State Auditor's Office issued an audit on the statewide use and administration of penalty assessment revenues. The audit was in response to an audit request made by the Joint Legislative Audit Committee, and primarily focused on whether state and local governments properly administer and disburse this revenue in accordance with state law. Specifically, the State Auditor evaluated county and superior court practices at Los Angeles, Merced, Sacramento and San Mateo, as well as reviewed disbursements made by the SCO and Judicial Council.

The audit concluded that no systemic strategy guides the State's use of penalty revenues to fund State/Local programs, and that the high costs for traffic tickets have burdened drivers. The auditor noted that the Judicial Council and other state agencies have spent funds appropriately, but recommended that the Legislature consider reviewing the current statutory structure over the next two years and consider better aligning the use of penalty revenues with the offenses that give rise to the penalty or fee. The State Auditor's recommendations are included in **Attachment C**. Since there are no findings or recommendations directed at judicial branch entities, committee staff did not include this audit as an action item for today's meeting.

#### ***Department of Child Support Services***

The Department of Child Support Services (DCSS) has not issued any final audit reports on the AB 1058 program since the audit committee's last meeting in April. DCSS is currently considering court responses to three draft audits (Fresno, Colusa, and Glenn). The Judicial Council's executive management team has proposed a corrective action plan for the findings and is waiting for DCSS's management's response. As soon as the corrective action plan is finalized and accepted, committee staff will update audit committee members.

Supporting Documents:

- Attachment A — Draft Audit Plan FY 18-19 (information only)
- Attachment B — Spending Status of Courts Innovations Grant Program (May 2018)
- Attachment C — State Auditor's recommendations to the Legislature regarding penalty assessment revenues (Audit Report #2017-126)



**JUDICIAL BRANCH  
ANNUAL AUDIT PLAN  
Fiscal Year 2018 - 2019**



JUDICIAL COUNCIL  
OF CALIFORNIA

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LEADERSHIP SERVICES DIVISION  
AUDIT SERVICES

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## BACKGROUND

### The Audit Committee

The Judicial Council amended Rule of Court, rule 10.63 in July 2017, establishing the “Advisory Committee on Audits and Financial Accountability for the judicial branch” (audit committee). The Judicial Council has tasked the audit committee with advising and assisting the Judicial Council in performing its responsibilities to ensure that the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently. The committee’s audit-specific responsibilities include<sup>1</sup>:

- 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.

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<sup>1</sup> 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
<b>Superior Courts</b>						
<b>Financial Reporting</b>	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
<b>Financial Compliance</b>	Recording of revenues, expenditures and fund balance not in accordance with state rules.	N/A	Medium		X	
<b>Cash Handling</b>	Court does not follow JCC internal control policies on handling cash and other forms of payment.	N/A	High	X		
<b>Procurement Activity</b>	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
<b>Payments &amp; Authorization</b>	Payments are for unallowable activities and/or lack authorization from the designated level of court management.	N/A	Medium	X		
<b>Criminal Fine &amp; Fee Revenue</b>	Criminal fines and fees not properly calculated and reported to the county.	High	High	X	X	
<b>Budgetary Accountability</b>	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		
<b>JCC Grant Requirements</b>	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		
<b>Appellate Courts</b>						
<b>Financial Reporting</b>	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
<b>Procurement Activity</b>	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
<b>JCC Grant Requirements</b>	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		
<b>Judicial Council</b>						
<b>Financial Reporting</b>	Financial statements are not prepared in accordance with GAAP.	Medium	Medium			X
<b>Financial Compliance</b>	Recording of revenues, expenditures and fund balance not in accordance with state rules.	N/A	Medium		X	
<b>Procurement Activity</b>	Court does not adhere to the Judicial Branch Contract Law and related JCC policies to maximize best value through competitive procurements.	Medium	Medium			X
<b>Non-Audit, Internal Reviews</b>	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 two senior auditors and five audit staff, who are split into two different sub-teams. The Court Audit Team's focus at each court is based on the risk areas noted in Table 1 above. 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 judicial branch programs that may affect multiple courts (such as the planned audits under the *Courts Innovations Grant Program*). Audit Services estimates that it has roughly 8,800 available hours for audit activities of the appellate and superior courts for fiscal year 2018-19. This translates to roughly eight court audits during the year, not including the roughly 2,500 hours the Internal Review Team has reserved for auditing court compliance under the *Courts Innovations Grant Program*.

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 a pilot audit and certain trial courts pursuant to Government Code, Section 77206(h) and expects to issue most of these reports during the beginning of the fiscal year. Similarly, the State Auditor's Office is expected to audit five trial courts to evaluate their compliance with the Judicial Branch Contracting Law, with that report expected around November 2018. Audit Services also anticipates that the California Department of Child Support Services will also continue to perform audits of select courts under the AB 1058 grant program.

**Table 2 – Available Resources and Anticipated Audit Schedule (Fiscal Year 2018-19)**

	2018-19												Total
	July	August	September	October	November	December	January	February	March	April	May	June	
Working Days	22	23	20	23	22	21	23	20	21	22	23	20	260
Maximum Hours	176	184	160	184	176	168	184	160	168	176	184	160	2,080
Judicial Branch Holidays	(8)		(8)	(8)	(24)	(8)	(16)	(16)	(8)		(8)		(104)
Est. Annual Leave / Sick Leave / P.H.	(40)		(16)		(16)	(80)						(40)	(192)
<b>Available Hours Per Auditor</b>	<b>128</b>	<b>184</b>	<b>136</b>	<b>176</b>	<b>136</b>	<b>80</b>	<b>168</b>	<b>144</b>	<b>160</b>	<b>176</b>	<b>176</b>	<b>120</b>	<b>1,784</b>
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 (Two Round Trips / month)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(384)
<b>Non-Audit Hours</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(38)</b>	<b>(456)</b>
<b>Available Audit Hours (per person)</b>	<b>90</b>	<b>146</b>	<b>98</b>	<b>138</b>	<b>98</b>	<b>42</b>	<b>130</b>	<b>106</b>	<b>122</b>	<b>138</b>	<b>138</b>	<b>82</b>	<b>1,328</b>
# of Audit Staff	8	8	10	10	10	10	10	10	10	10	10	10	10
<b>Available Audit Hours</b>	<b>720</b>	<b>1,168</b>	<b>980</b>	<b>1,380</b>	<b>980</b>	<b>420</b>	<b>1,300</b>	<b>1,060</b>	<b>1,220</b>	<b>1,380</b>	<b>1,380</b>	<b>820</b>	<b>12,808</b>
Court Team #1	270	438	392	552	392	168	520	424	488	552	552	328	5,076
Court Team #2	180	292	294	414	294	126	390	318	366	414	414	246	3,748
Internal Review Team	270	438	294	414	294	126	390	318	366	414	414	246	3,984

	2018-19											
	July	August	September	October	November	December	January	February	March	April	May	June
<b>Judicial Council - Audit Services</b>												
Court Team #1	Siskiyou	Ventura			Glenn		Flex	San Francisco			Modoc	
Court Team #2	Sacramento			5th DCA		Flex	San Benito			Flex	Trinity	
Internal Review Team	Internal Reviews	Court Innovations Grant				Internal Reviews	Court Innovations Grant			Internal Reviews		
<b>State Controller's Office</b>	Sacramento / Amador		San Mateo / Sonoma / Tehama		Add'l Courts TBD - Based on Funding							
									Judicial Council			
<b>State Auditor's Office</b>	Procurement Audit of 5 Trial Courts - Courts TBD						Procurement Audit of Judicial Council					
<b>Department of Child Support Services</b>	AB 1058 Audits at Courts - TBD											

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. As a result,

final audit reports may come to the audit committee up to a month after the anticipated timeframes shown in the table.

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**

(Current Plan)				(Next Year)			
Appellate / Superior Court	Date of Last Audit Report	FY 2018/19	FY 2019/20	Appellate / Superior Court	Date of Last Audit Report	FY 2018/19	FY 2019/20
1st DCA	N/A		Y	55. Tuolumne	2/1/2012		
2nd DCA	N/A			26. Mono	3/1/2012		
4th DCA	N/A			50. Stanislaus	4/1/2012		
5th DCA	N/A	X		8. Del Norte	9/1/2012		
6th DCA	N/A			42. Santa Barbara	11/1/2012		
47. Siskiyou	October-08	IP		27. Monterey	12/1/2012		
56. Ventura	December-08	X		30. Orange	12/1/2012		
35. San Benito	September-09	X		19. Los Angeles	2/1/2013		
25. Modoc	January-10	X		1. Alameda	3/1/2013		
11. Glenn	February-10	X		23. Mendocino	7/1/2013		
53. Trinity	April-10	X		58. Yuba	8/1/2013		
34. Sacramento	May-10	X		21. Marin	10/1/2013		
38. San Francisco	May-10	X		51. Sutter	11/1/2013		
52. Tehama	June-10		Y	20. Madera	6/1/2014		
41. San Mateo	September-10		Y	29. Nevada	7/1/2014		
18. Lassen	November-10		Y	17. Lake	8/1/2014		
46. Sierra	November-10		Y	40. San Luis Obispo	12/1/2014		
44. Santa Cruz	December-10		Y	36. San Bernardino	1/1/2015		
32. Plumas	January-11		Y	57. Yolo	2/1/2015		
45. Shasta	January-11		Y	54. Tulare	7/1/2015		
28. Napa	March-11			16. Kings	10/1/2015		
3. Amador	April-11			12. Humboldt	12/1/2015		
9. El Dorado	April-11			7. Contra Costa	2/1/2016		
37. San Diego	April-11			10. Fresno	6/1/2016		
39. San Joaquin	April-11			15. Kern	8/1/2016		
49. Sonoma	April-11			31. Placer	10/1/2017		
2. Alpine	July-11			24. Merced	1/1/2018		
14. Inyo	July-11			4. Butte	4/1/2018		
13. Imperial	August-11			3rd DCA	5/1/2018		
33. Riverside	October-11			48. Solano	6/1/2018		
43. Santa Clara	December-11			6. Colusa	6/1/2018		
22. Mariposa	January-12			5. Calaveras	6/1/2018		

Notes:

"IP" = In progress

"X" = Scheduled for audit in annual audit plan

"Y" = Tentative for following year's audit plan



**Attachment B - Court Innovations Grant Program (CIG) Spending Status -- As of May 3, 2018**

Grantee / Court	SPO #	WBS	Grant Type	Total Awarded	Total Disbursed to Court	Total Spent By Court
ALAMEDA COUNTY SUPERIOR COURT	SPO561	G-011080-1	Collaborative	\$ 114,223.00	\$ 100,384.00	\$ 14,355.80
CONTRA COSTA COUNTY SUPERIOR COURT	SPO580	G-071080-2	Collaborative	\$ 367,974.33	\$ 163,543.81	\$ 55,430.07
FRESNO COUNTY SUPERIOR COURT	SPO586	G-101080-1	Collaborative	\$ 383,651.00	\$ 234,299.00	\$ 195,812.02
HUMBOLDT COUNTY SUPERIOR COURT	SPO587A	G-121080-1	Collaborative	\$ 1,414,209.82	\$ 549,793.68	\$ 45,555.33
INYO COUNTY SUPERIOR COURT	SPO588A	G-141080-1	Collaborative	\$ 273,712.00	\$ 89,478.00	\$ 28,215.72
MENDOCINO COUNTY SUPERIOR COURT	SPO613	G-231080-1	Collaborative	\$ 374,611.89	\$ 92,038.44	\$ 45,591.68
PLACER COUNTY SUPERIOR COURT	SPO640	G-311080-1	Collaborative	\$ 560,000.00	\$ 560,000.00	\$ -
SACRAMENTO COUNTY SUPERIOR COURT	SPO652	G-341080-2	Collaborative	\$ 311,849.00	\$ 103,623.00	\$ 79,306.58
SAN DIEGO COUNTY SUPERIOR COURT	SPO663	G-371080-2	Collaborative	\$ 1,484,758.85	\$ 488,253.32	\$ 147,082.12
SAN FRANCISCO COUNTY SUPERIOR COURT	SPO732	G-381080-1	Collaborative	\$ 318,592.00	\$ 79,400.00	\$ 68,522.82
SAN JOAQUIN COUNTY SUPERIOR COURT	SPO671	G-391080-1	Collaborative	\$ 1,982,207.94	\$ 643,842.39	\$ 377,740.87
SAN MATEO COUNTY SUPERIOR COURT	SPO673	G-411080-1	Collaborative	\$ 1,012,477.00	\$ 401,599.00	\$ 88,653.83
SANTA CRUZ COUNTY SUPERIOR COURT	SPO730	G-441080-1	Collaborative	\$ 1,174,633.00	\$ 404,461.00	\$ 171,226.81
SONOMA COUNTY SUPERIOR COURT	SPO694	G-491080-1	Collaborative	\$ 56,476.00	\$ 56,476.00	\$ 47,527.62
STANISLAUS COUNTY SUPERIOR COURT	SPO699A	G-501080-1	Collaborative	\$ 593,089.91	\$ 197,513.43	\$ 6,828.87
<b>Sub-Total</b>				<b>\$ 10,422,465.74</b>	<b>\$ 4,164,705.07</b>	<b>\$ 1,371,850.14</b>
CONTRA COSTA COUNTY SUPERIOR COURT	SPO734	G-071080-4	Other	\$ 239,000.00	\$ 232,000.00	\$ 103.92
COURT OF APPEAL-FIFTH DISTRICT	SPO559	35011004	Other	\$ 793,000.00	\$ -	\$ 4,500.00
HUMBOLDT COUNTY SUPERIOR COURT	SPO587C	G-121080-2	Other	\$ 170,919.87	\$ 170,919.87	\$ 751.78
LOS ANGELES COUNTY SUPERIOR COURT	SPO601	G-191080-3	Other	\$ 637,500.00	\$ 425,000.00	\$ 238,625.00
LOS ANGELES COUNTY SUPERIOR COURT	SPO592	G-191080-1	Other	\$ 114,760.00	\$ 114,760.00	\$ -
MERCED COUNTY SUPERIOR COURT	SPO615	G-241080-1	Other	\$ 194,540.00	\$ 173,880.00	\$ -
MONTEREY COUNTY SUPERIOR COURT	SPO620	G-271080-1	Other	\$ 209,360.74	\$ 209,360.74	\$ -
ORANGE COUNTY SUPERIOR COURT	SPO626	G-301080-3	Other	\$ 246,190.00	\$ 222,150.00	\$ 11,904.00
ORANGE COUNTY SUPERIOR COURT	SPO627	G-301080-4	Other	\$ 212,972.00	\$ 78,720.00	\$ 11,904.00
ORANGE COUNTY SUPERIOR COURT	SPO625	G-301080-2	Other	\$ 938,851.34	\$ 563,910.67	\$ 80,000.00
ORANGE COUNTY SUPERIOR COURT	SPO624	G-301080-1	Other	\$ 511,200.00	\$ 170,400.00	\$ 72,324.00
SACRAMENTO COUNTY SUPERIOR COURT	SPO651	G-341080-1	Other	\$ 66,249.00	\$ 66,249.00	\$ 52,094.25
SAN BERNARDINO COUNTY SUPERIOR COURT	SPO658	G-361080-3	Other	\$ 244,698.58	\$ 70,947.98	\$ 65,399.23
SAN MATEO COUNTY SUPERIOR COURT	SPO675	No Agreement	Other	\$ 125,000.00	\$ -	\$ -
SANTA CRUZ COUNTY SUPERIOR COURT	SPO736	No Agreement	Other	\$ 35,760.00	\$ -	\$ -
<b>Sub-Total</b>				<b>\$ 4,740,001.53</b>	<b>\$ 2,498,298.26</b>	<b>\$ 537,606.18</b>
BUTTE COUNTY SUPERIOR COURT	SPO567	G-041080-1	Self Help	\$ 576,140.00	\$ 356,703.00	\$ 116,340.60
CONTRA COSTA COUNTY SUPERIOR COURT	SPO578	G-071080-3	Self Help	\$ 970,365.00	\$ 339,688.00	\$ 101,664.08
COURT OF APPEAL-FIFTH DISTRICT	SPO558	35011003	Self Help	\$ 317,916.00	\$ -	\$ 25,000.00
EL DORADO COUNTY SUPERIOR COURT	SPO585	G-091080-1	Self Help	\$ 66,599.00	\$ 52,450.00	\$ -
LOS ANGELES COUNTY SUPERIOR COURT	SPO597	G-191080-2	Self Help	\$ 59,373.00	\$ 59,373.00	\$ -
MONTEREY COUNTY SUPERIOR COURT	SPO621	G-271080-1	Self Help	\$ 789,940.00	\$ 254,620.00	\$ 44,314.90
ORANGE COUNTY SUPERIOR COURT	SPO631	G-301080-5	Self Help	\$ 326,800.00	\$ 106,000.00	\$ 11,904.00
RIVERSIDE COUNTY SUPERIOR COURT	SPO647	G-331080-1	Self Help	\$ 648,774.14	\$ 395,436.69	\$ 297,668.44
RIVERSIDE COUNTY SUPERIOR COURT	SPO648	G-331080-2	Self Help	\$ 46,865.65	\$ 35,611.34	\$ 22,036.79
RIVERSIDE COUNTY SUPERIOR COURT	SPO725	G-331080-3	Self Help	\$ 178,732.14	\$ 166,222.69	\$ 6,222.69
SAN BERNARDINO COUNTY SUPERIOR COURT	SPO720	G-361080-2	Self Help	\$ 35,537.60	\$ 20,687.40	\$ 17,338.85
SAN BERNARDINO COUNTY SUPERIOR COURT	SPO659	G-361080-1	Self Help	\$ 430,755.51	\$ 373,832.05	\$ 95.00
SAN DIEGO COUNTY SUPERIOR COURT	SPO662	G-371080-1	Self Help	\$ 276,320.00	\$ 129,409.00	\$ 133,919.42
SAN MATEO COUNTY SUPERIOR COURT	SPO674	G-411080-2	Self Help	\$ 336,000.00	\$ 296,000.00	\$ 926.63
SANTA BARBARA COUNTY SUPERIOR COURT	SPO680	No agreement	Self Help	\$ 312,926.00	\$ -	\$ -
SHASTA COUNTY SUPERIOR COURT	SPO684	G-451080-1	Self Help	\$ 603,558.92	\$ 213,801.58	\$ 26,225.01
SONOMA COUNTY SUPERIOR COURT	SPO695	G-491080-2	Self Help	\$ 56,586.00	\$ 56,586.00	\$ -
TUOLUMNE COUNTY SUPERIOR COURT	SPO709	G-551080-1	Self Help	\$ 24,000.00	\$ 8,400.00	\$ 600.00
VENTURA COUNTY SUPERIOR COURT	SPO713	G-561080-1	Self Help	\$ 88,182.00	\$ 32,184.00	\$ 11,937.82
VENTURA COUNTY SUPERIOR COURT	SPO714	G-561080-2	Self Help	\$ 932,404.00	\$ 318,236.00	\$ 195,781.30
YOLO COUNTY SUPERIOR COURT	SPO724	G-571080-1	Self Help	\$ 91,500.00	\$ 76,500.00	\$ -
<b>Sub-Total</b>				<b>\$ 7,169,274.96</b>	<b>\$ 3,291,740.75</b>	<b>\$ 1,011,975.53</b>
<b>Total</b>				<b>\$ 22,331,742.23</b>	<b>\$ 9,954,744.08</b>	<b>\$ 2,921,431.85</b>
Contingency				\$ 2,043,257.77		
Budgeted Admin				\$ 625,000.00		
<b>Total Program</b>				<b>\$ 25,000,000.00</b>		

**Source:** Grant award information is based on executed grant agreements and disbursements are based on the Judicial Council's Oracle Financial System. Expenditure information is based on court-recorded spending data in the Phoenix financial system. Although Santa Barbara has recorded grant expenditures within Phoenix under the court's "JCC Grant Fund" amounting to \$21,314.95, the court has not received grant funds given the lack of an agreement. As a result, this amount is not reflected in the table shown above.

## Attachment C – State Auditor’s Recommendations (Penalty Revenues Audit)

### Recommendations

#### *Legislature*

To ensure consistent funding streams for state and county programs, the Legislature should consider whether, and to what extent, to fund the programs that currently receive penalty and fee revenue from criminal and traffic violations. The Legislature could adjust or eliminate individual penalties and fees by considering the following factors identified in our report:

- Revenue trends and the reliability of penalties and fees as funding sources.
- The significant financial impact of penalties and fees on low-income individuals
- How well aligned the uses of penalty and fee revenues are with the offenses that give rise to the penalty or fee.
- The seemingly arbitrary amount of the penalty or fee.

To accomplish this, over the next two-year period the Legislature should review the penalties and fees and the programs that receive the penalty and fee revenue to determine the programs’ needs. If the Legislature determines that a particular penalty or fee is not appropriate for generating revenue for a particular program, it should consider requiring the affected department to identify other funding sources or reduce the program’s scope of services.

The Legislature should consider revising state law to redirect all or part of the penalty revenue to the State Penalty Fund and using the budget process to allocate funds to align with legislative priorities.



JUDICIAL COUNCIL  
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND  
FINANCIAL ACCOUNTABILITY FOR THE  
JUDICIAL BRANCH

Meeting Date: 05/23/2018

## **Action Item #1 – (Action Required)**

### **External Audit Report – State Controller’s Office**

Requested Action:

- **Action Item** - Discuss the external audit report and approve its posting on the [www.courts.ca.gov](http://www.courts.ca.gov) website per California Rules of Court, Rule 10.63(c)(1).

Supporting Documents:

- ***Attachment A***—California State Controller’s audit of Yolo Superior Court for fiscal year 2016-17 (review of revenues, expenditures, and fund balance per Government Code, Section 77206(h)) [***Action item 1***]

Summary:

Government Code, Section 77206(h) requires the State Controller’s Office (SCO) to engage in a pilot audit program (involving six courts) to review each court’s revenues, expenditures and fund balance. The audit findings and costs associated with the pilot audit program will be used to inform the Legislature of the potential costs associated with the SCO auditing roughly 14-15 courts per year on a recurring basis.

The Judicial Council entered into an agreement with the SCO in September 2017 in order to facilitate the pilot audit program, which includes the following six courts:

- ***Yolo – (discussed today)***
- Sacramento – (report being drafted)
- Amador – (fieldwork expected to conclude June 1<sup>st</sup>)
- San Mateo – (entrance conference on May 16<sup>th</sup>)
- Sonoma – (entrance conference on May 22<sup>nd</sup>)
- Tehama – (entrance conference on June 11<sup>th</sup>)

Overall, the SCO concluded that Yolo Superior Court “complied with the governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures

and fund balances.” However, the SCO auditors noted four audit findings, summarized below, and the Court generally agreed with the auditor’s observations.

Finding #1 (Cash Handling) – Auditor’s observed that money bags are collected from the safe by management and left on a table for cashiers to collect, resulting in a break in the chain of custody and leaving the bags vulnerable to theft. The Court indicated this was an isolated incident involving the day’s opening start-up procedures, and notes that any irregularities would have been immediately discovered during the court’s counting process. Regardless, the Court reports it has provided additional direction to court staff to ensure cash bags remain under direct control at all times.

Finding #2 (Cash Handling) – Auditors observed that the Court lacks adequate segregation of duties when logging, verifying, and posting payments received by mail. The Court agreed with the need for a segregation of duties and cites limited staffing as a limiting factor. The Court reports it has made the recommended modifications.

Finding #3 (Procurement) – Auditors noted that for one procurement valued at between \$500 and \$5,000, the Court did not obtain three bids when it should have done so. The Court agreed that it did not obtain three bids (and instead obtained only two) and noted that it has provided additional instructions to procurement staff.

Finding #4 (Expenditure Processing) – One transaction amount was entered incorrectly into the accounting system, while another transaction lacked supervisory review and approval. The Court agreed with the finding and notes that the inaccurate entry was a year-end accrual that was subsequently corrected and resulted in the appropriate payment of the vendor. The Court reports providing additional instructions and guidance to court employees in response to this finding.

**Action 1:** Committee staff recommends that the audit committee approve the public posting of this audit report (Attachment A) on [www.courts.ca.gov](http://www.courts.ca.gov) per ROC 10.63(c)(1).

# **SUPERIOR COURT OF YOLO COUNTY**

Audit Report

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

*July 1, 2016, through June 30, 2017*



**BETTY T. YEE**  
California State Controller

May 2018



**BETTY T. YEE**  
California State Controller

May 16, 2018

Shawn Landry, Court Executive Officer  
Superior Court of Yolo County  
1000 Main Street  
Woodland, CA 95695

Dear Mr. Landry:

The State Controller's Office audited the Superior Court of Yolo County's (Yolo court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under the administration, jurisdiction, and control of Yolo court. The audit period is July 1, 2016, through June 30, 2017.

Our audit found no instances of non-compliance. However, we found weaknesses in Yolo court's administrative and internal accounting control system, which are described in the Findings and Recommendations section of our report.

Yolo court agreed with our findings and provided a detailed Corrective Action Plan addressing the fiscal control weaknesses and recommendations. We appreciate the Court's willingness to implement corrective actions.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/as

cc: Martin Hoshino, Administrative Director  
Judicial Council of California  
Leanne Sweeney, CPA, Court Financial Officer  
Superior Court of Yolo County  
Millicent Tidwell, Chief Deputy Director  
Judicial Council of California  
John Wordlaw, Chief Administrative Officer  
Judicial Council of California  
Zlatko Theodorovic, Chief Financial Officer and Director of Finance  
Judicial Council of California  
Grant Parks, Principal Manager  
Audit Services  
Judicial Council of California  
Daniel Alvarez, Secretary of the Senate  
Office of the Secretary of State  
E. Dotson Wilson, Chief Clerk  
California State Assembly, Office of the Chief Clerk  
Diane F. Boyer-Vine, Legislative Counsel  
Office of Legislative Counsel  
Amy Leach, Journal Clerk  
California State Assembly, Office of the Chief Clerk  
Mark Tollefson, Assistant Program Budget Manager  
Department of Finance

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## Audit Report

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the Superior Court of Yolo County's (Yolo court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under the administration, jurisdiction, and control of Yolo court. The audit period is July 1, 2016, through June 30, 2017.

Yolo court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures and fund balances. However, we found the following weaknesses in Yolo court's administrative and internal accounting control system:

- Inadequate internal controls over the cash-handling process;
- Inadequate segregation of duties over the mail verification and posting process;
- Inconsistent adherence with procurement policies and procedures; and
- Inadequate internal controls for review and approval of expenditure processing.

This was the first audit performed pursuant to Government Code (GC) section 77206(h).

## Background

Yolo court operates from five court locations in the City of Woodland, California. Yolo court employs 10 judges, a full-time and part time subordinate judicial officer, and approximately 102 court staff to fulfill its operational and administrative activities. Yolo court incurred more than \$13 million in expenditures for the period July 1, 2016, through June 30, 2017.

The following four funds are under the control of Yolo court: the General Fund, the Non-Grant Special Revenue Fund, the Grant Special Revenue Fund, and the Capital Project Fund. The General Fund and Non-Grant Special Revenue Fund had revenues and expenditures in excess of 4% of total revenues and expenditures; they are therefore considered material and significant.

In California, trial courts are subject to rules and policies established by the Judicial Council of California to promote efficiency and uniformity within a system of trial court management. However, each trial court has the authority and responsibility for managing its own operations. All employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must also operate within the specific levels of authority that may be established by the trial court for their positions. California Rules of Court (CRC) and the Trial Court Financial Policies and Procedures Manual established under GC sections 77000 through 77013 and adopted under CRC 10.804, respectively, specify guidelines and requirements for court governance.

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.

We performed the audit at the request of Judicial Council of California. The authority is provided by interagency agreement number 1034558, dated September 5, 2017, between the SCO and the Judicial Council of California.

## **Objective, Scope, and Methodology**

The objective of our audit was to determine whether Yolo court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under the administration, jurisdiction, and control of Yolo court. The audit period is July 1, 2016, through June 30, 2017.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with authorizing GC sections 77000 through 77013 requiring that they be properly supported by documentation, and recorded accurately in the accounting records;
- Expenditures were properly authorized, adequately supported, accurately recorded in the accounting records, and incurred pursuant to authorizing GC sections 77000 through 77013 requiring consistency with the fund's purpose; and
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

To accomplish our objective, we:

### General Procedures

- Reviewed Yolo courts' Governance Policies, Budget Act, Manual of State Funds, GC sections 13400 through 13407 and GC sections 77000 through 77013, CRC, Trial Court Financial Policies and Procedures Manual, and relevant internal policies and procedures to identify compliance requirements applicable to trial court for revenues, expenditures, and fund balances.

### Internal Controls

- Reviewed current policies and procedures, organization charts, and Yolo court's website, and interviewed Yolo court staff to gain an understanding of the internal control environment;
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties are properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions;
- Evaluated Yolo court's formal written internal policies and procedures;

- Completed internal control questionnaires by interviewing key staff, and observed the business operations for the purpose of evaluating cash handling and internal accounting controls; and
- Reviewed Yolo court’s documentation and supporting financial record that support the validity of recorded revenues, expenditures, and fund balances.

We performed the following tests of transactions to ensure adherence with prescribed procedures and to validate and test the effectiveness of controls:

Revenue Substantive Testing

- Tested revenue transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records;
- Tested individual revenue accounts that exceeded \$200,000, totaling \$2,156,616 out of \$13,571,144, or 15.9%, of the total revenues (see table below for percentages of revenue accounts sampled); and
- Judgmentally sampled a minimum of 10% of the selected revenue accounts, consisting of large dollar amount transactions within each account sampled, and traced to supporting documentation.

We did not identify any errors in the samples.

The following table identifies total revenues by account and related amounts tested:

Revenue Accounts	Total Revenues	Percentage Total	Amount Tested	Percentage Tested
State Financing Sources				
Trial Court Trust Fund	\$ 10,402,991	76.7%	\$ 1,340,990	12.9%
Court Interpreter	719,525	5.3%	147,866	20.6%
MOU Reimbursement	623,072	4.6%	178,841	28.7%
Other Miscellaneous	210,077	1.5%	210,077	100.0%
Grants				
AB 1058 Commissioner/Facilitator	312,879	2.3%	60,061	19.2%
Other Financing Sources				
Enhanced Collections	806,806	6.0%	218,781	27.1%
Other Accounts <sup>1</sup>	495,794	3.6%	-	-
Total Revenues	\$ 13,571,144	100.0%	\$ 2,156,616	

<sup>1</sup> Other accounts not tested included the following: Improvement and Modernization Fund, Judges’ Compensation from State Financing Sources, Other Judicial Council Grants and Non-Judicial Council Grants from Grants, Interest Income, Investment Income, Donations, Local Fees, Non-Fee Revenues, Escheatment, Prior Year Revenue, County Program – Restricted, Reimbursement Other, Sale of Fixed Assets, and Other Miscellaneous of Other Financing Sources.

Expenditure Substantive Testing

- Tested expenditure transactions of the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Codes consistent with the fund’s purpose, properly authorized, adequately supported, and accurately recorded in the accounting records;
- Tested individual expenditure accounts that that exceeded \$200,000, totaling \$1,031,726 of \$13,193,394, or 7.8% of the total expenditures (see table below for percentages of expenditure accounts sampled);

We did not identify any errors in the sample.

The following table identifies total expenditures by account and related amounts tested:

Expenditure Accounts	Total Expenditures	Percentage Total	Amount Tested	Percentage Tested
Personnel Services				
Salaries – Permanent				
Employees	\$ 5,833,355	44.2%	\$ 238,185	4.1%
Staff Benefits	3,552,848	26.9%	3,059	0.1%
Operating Expenditures and Equipment				
Security Services	342,946	2.6%	81,417	23.7%
Contracted Services	1,866,132	14.2%	298,751	16.0%
Information Technology	282,428	2.1%	55,314	19.6%
Special Items of Expenditures				
Other	515,000	3.9%	355,000	68.9%
Other Accounts <sup>1</sup>	800,685	6.1%	-	-
Total Expenditures	<u>\$ 13,193,394</u>	<u>100.0%</u>	<u>\$ 1,031,726</u>	

<sup>1</sup> Other accounts not tested included the following: Temp Help from Personnel Services, General Expense, Printing, Telecommunications, Postage, Insurance, In-State Travel, Out-of-State Travel, Training, Facility Operations, Utilities, Consulting and Professional Services, Major Equipment, Other Items of Expense from Operating Expenses and Equipment, Grand Jury, Jury Costs, Judgements, Settlements, and Claims, Debt Service, Other from Special Items of Expense, Capital Costs, Internal Cost Recovery, Prior Year Expense Adjustment.

- For Salaries – Permanent Employees, we selected 10 employees out of 114 from a list provided by Yolo court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation to ensure that:
  - Employee time included supervisory approval;
  - Overtime was authorized;
  - Regular earnings were supported by the Salary Resolution; and
  - Regular earnings tied back to the general ledger;

- For Staff Benefits, we selected the same 10 employees out of 114 from a list provided by Yolo court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation and the general ledger; and
- For Operating Expenses and Equipment, and Special Items of Expenditures, we judgmentally sampled a minimum of 10% of the selected expenditure accounts consisting of large dollar amounts, and traced them to supporting documentation.

Fund Balance Substantive Testing

- We tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether transactions were reported on the legal/budgetary basis of accounting and maintained in accordance with fund accounting principles (see table below for transaction summary by fund);
- We verified the accuracy of individual fund balances in Yolo court’s financial supporting documentation; and
- We recalculated sampled funds to ensure fund balances as of June 30, 2017, are accurate and in compliance with applicable criteria.

We did not identify any errors in the sample.

The following table identifies changes in fund balances:

	Special Revenue Fund			Capital Projects Fund	Total
	General Fund	Non-Grant	Grant		
Beginning fund balance	\$ 184,613	\$ 447,629	\$ -	\$ 272	\$ 632,514
Revenues	12,355,897	892,610	322,636	-	13,571,143
Expenditures	(11,899,891)	(859,136)	(434,367)	-	(13,193,394)
Transfers In	-	-	111,731	-	111,731
Transfers Out	(111,731)	-	-	-	(111,731)
Ending fund balance	<u>\$ 528,888</u>	<u>\$ 481,103</u>	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ 1,010,263</u>

We conducted this performance audit under the authority of GC section 77206(h). We did not audit Yolo court’s financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of Yolo court’s internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit Yolo court’s financial statements.

**Conclusion**

Our audit found that Yolo court complied with statutes, rules, and regulations relating to the validity of recorded revenues, expenditures and fund balances for the period of July 1, 2016, through June 30, 2017. However, we found the following weaknesses in the administrative and internal accounting control system, which are described in the Findings and Recommendations section of this report:

- Inadequate internal controls over the cash-handling process;
- Inadequate segregation of duties over the mail verification and posting process;
- Inconsistent adherence to procurement policies and procedures; and
- Inadequate internal controls for review and approval of expenditure processing.

**Views of  
Responsible  
Officials**

We issued a draft audit report on May 7, 2018. Joni James, Senior Accountant, responded by email on May 10, 2018, agreeing with the audit results. This final audit report includes Yolo court's response in the Findings and Recommendations section.

**Restricted Use**

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

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

May 16, 2018

# Findings and Recommendations

## **FINDING 1— Inadequate internal controls over cash handling process**

Yolo court does not have adequate internal controls over the cash handling process. Cash collection is one of the major components of reported revenues. Therefore, inadequate cash controls could affect the accuracy of reported revenues.

We observed during the walk-through that money bags were unsecured during the cash handling procedure. Management does not routinely monitor the cash controls. Money bags are collected from the safe by management and are left on a table for cashiers to collect, resulting in a break in the chain of custody, and leaving the money bags vulnerable to theft.

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 Yolo court staff work more effectively in complying with governing statutes and procedures.

### Recommendation

We recommend that Yolo court strengthen its control over the cash handling process to ensure the proper reporting of revenues on the financial statements.

### Court Response

The Court agrees that controls over the clerk cash bags can be strengthened. The day in question, though, was an isolated incident involving the morning start up procedures with limited cash in the bags. The bags were set out in an employee only area for the authorized employees to retrieve. After retrieval, the bags were counted and verified by two people. Any irregularities would have been immediately discovered during the counting process. The Court has provided additional instruction to the individuals responsible for the oversight of the bags, specifically requiring that all bags remain under control of authorized persons at all times when not locked away. The Court Fiscal Division logs the return of all cash bags at the end of each business day and periodically performs surprise observation audits to ensure the procedures are consistently followed.

## **FINDING 2— Inadequate segregation of duties over the mail verification and posting process**

Yolo court does not have adequate segregation of duties within its mail verification and posting process.

Through discussions with Yolo court staff and walk-through testing, we found that the same staff members performed the following conflicting duties:

- Logged and verified payments received in the mail; and
- Posted verified payments into the Court’s financial system.

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 provide a stronger system of internal control that reduces opportunities for fraud and error. Adequate segregation of duties includes having separate processes performed by different individuals at various stages of a transaction and independent reviews of work performed.

Inadequate segregation of duties and compensating controls have a pervasive effect on the mail verification and posting process by impairing the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

#### Recommendation

We recommend that Yolo court establish internal policies and procedures to implement segregation of duties or other compensating methods to mitigate the conflicting duties over mail processing.

#### Court Response

The Court agrees that for a strong system of internal controls we should have segregation of duties, specifically, different individuals performing mail payment log/verification, and posting payments into the Court's financial system. Due to the courts limited staffing, this has not been achievable. Because of this, the Court's Fiscal Division compares the daily log noting the staff preparing the report and verifies the payments are posted into the financial system. The Court has made the recommended modifications but this will delay payments being posted into the financial system.

### **FINDING 3— Inconsistent adherence to procurement policies and procedures**

Yolo court staff did not consistently follow procurement policies and procedures to ensure effective management controls over the purchase order process.

We tested all seven procurement transactions initiated during the audit period. For one of the transactions tested, Yolo court had not obtained three bids for a purchase between \$500 and \$5,000.

The Trial Court Financial Policies and Procedures Manual (section 6.01, subsection 6.5.2), states:

- For procurements exceeding a value of \$500 but are less than \$5,000, Yolo court should obtain at least three bids from qualified bidders by telephone, fax, or through the Internet;
- The procurement of necessary goods and services should be conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice; and
- All procurement actions should be planned, implemented, and administered under clear and concise procurement guidelines.



Recommendation

We recommend that Yolo court comply with the policies and procedures in the Trial Court Financial Policies and Procedures Manual to ensure fairness, efficiency, and security in the purchase order process.

Court Response

The Court agrees that it did not obtain three bids for a purchase of \$503. Procurement staff did get two bids from the local vendors that could match the existing pieces already in place. The least costly was selected for the procurement. Procurement staff have been provided additional instruction on the proper procedures to follow and where to obtain additional guidance if questions arise.

**FINDING 4—  
Inadequate internal  
controls for review  
and approval of  
expenditure  
processing**

Yolo court does not have adequate internal controls for review and approval of expenditure processing.

We tested \$1,031,726 (or 7.8%) of the total expenditures. Our audit found that:

- Yolo court entered an incorrect invoice amount in the general ledger in one instance, and
- Appropriate signature approvals were missing from expenditure transactions in one instance.

The Trial Court Financial Policies and Procedures Manual (section 2.01, subsection 6.4), states, in part, “1. Each trial court shall document its financial activities and maintain sufficient accounting records to: a. Ensure that all transactions are properly and accurately recorded.”

The Trial Court Financial Policies and Procedures Manual (section 1.03, subsection 6.4), states, in part, “2. An effective system of internal review includes, but is not limited to.... c. Independent review and approval of transactions by supervising or managing personnel.”

Compliance with trial court accounting practices helps ensure the accurate reporting of all transactions.

Recommendation

We recommend that Yolo court comply with the policies and procedures in the Trial Court Financial Policies and Procedures Manual to ensure adequate controls for review, approval, and accurate recording of expenditures.

Court Response

The Court agrees that it entered an incorrect invoice amount in the financial system as a yearend accrual. However, the error was discovered prior to payment of the invoice, and the correct payment amount was remitted to the vendor. The Court also agrees that appropriate signature approval was missing on one invoice. Court staff have been provided additional instruction for reviewing invoices to ensure correct amounts are noted and approvals are present prior to entry in the financial system.

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