

SUPERIOR COURT OF CALIFORNIA, COUNTY OF MADERA

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

May 2022



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California State Controller

May 17, 2022

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

Dear Ms. Calip:

The State Controller's Office audited the Superior Court of California, County of Madera (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2019, through June 30, 2020.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, we also identified instances of accounting errors and internal control deficiencies that are not significant to the audit objectives, but warrants the attention of management.

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

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

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Staci Martines, Interim Chief Financial Officer
Superior Court of California, County of Madera
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Madera (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2019, through June 30, 2020.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, we also identified instances of accounting errors and internal control deficiencies that are not significant to the audit objectives, but warrants the attention of management.

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

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, established through Article IV of the California Constitution. The Constitution charges the Judicial Council of California (JCC) with authority to adopt rules for court administration, practices, and procedures. The *Judicial Council Governance Policies* are included in the California Rules of Court. Trial courts are also required to comply with various other state laws, rules, and regulations, much of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, "The Organization and Government of Courts."

Pursuant to California Rules of Court (CRC) rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual* (FIN Manual), which provides guidance and directives for trial court fiscal management. The FIN Manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. It also describes an internal control framework that enables courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability. Procurement and contracting policies and procedures are addressed separately in the *Judicial Branch Contracting Manual*, adopted by the JCC under Public Contract Code section 19206.

With respect to trial court operations, CRC rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and

indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions. The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components are the core subject matter of our audit.

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates monies in the TCTF to trial courts. The TCTF's two main revenue sources are the annual transfer of appropriations from the State's General Fund and maintenance-of-effort payments by counties, derived from their collections of fines, fees, and forfeitures.

In fiscal year (FY) 2019-20, the Court reported revenues of \$11,495,185. The Court receives the majority of its revenue from state financing sources. The TCTF provided 76.2% of the Court's revenue. During the audit period, the Court incurred expenditures of \$11,623,215. Payroll-related expenditures (salaries and benefits) comprised 77.9% of total expenditures. The Court employed 102 staff members to serve Madera County's population of approximately 158,350 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, a Special Revenue Grant Fund, and a Fiduciary Fund. The General Fund, Special Revenue Non-Grant Fund, and Special Revenue Grant Fund had revenue and expenditure accounts in excess of 4% of total revenues and expenditures, and were considered material and significant.

We performed the audit at the request of the JCC. Audit authority is provided by Interagency Agreement Number 58163, dated January 6, 2020, between the SCO and the JCC, and by GC section 77206(h)(2).

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control.

Specifically, we conducted this audit to determine whether:

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

- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

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

To accomplish our objective, we performed the following procedures.

General Procedures

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

Internal Controls

- We reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- We interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- We assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions.
- We reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the Court's financial and human resources systems; (2) reviewing Court policies; (3) agreeing accounting data files with published financial reports; (4) tracing data records to source documents to verify completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key court information systems. We determined that the data was sufficiently reliable for the purposes of achieving our objective.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 13 revenue items and 33 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the impact of the identified errors. Errors were not projected to the intended (total) population.

Revenue Testing

- We designed our revenue testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting.
- We tested revenue transactions and account balances in the General Fund and the Non-Grant Special Revenue Fund to determine whether revenue accounting was consistent with Government Code, properly supported by documentation, and recorded correctly in the accounting system.
- Our testing included tests of accounting internal controls and of recorded transaction details. We selected all material financial statement accounts that exceeded 4% of total revenues, and determined that the TCTF and MOU [memorandum of understanding] Reimbursements accounts were material. We expanded our testing to include the Improvement and Modernization Fund, Court Interpreter, and Other Miscellaneous revenue accounts. We tested the accounts through combined sampling and analytical procedures.
- We tested \$10,670,000 of \$11,495,185, or 92.8% of total revenues.

We identified errors in an account balance that resulted from unadjusted differences between revenues earned and accrued in the prior year and remittances received in the current year. The total dollar amount of the error is \$101,805.

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

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to Government Code, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. Material accounts included payroll-related (salaries and benefits) accounts and non-payroll (contracted services and information technology) accounts.
- To test payroll-related expenditure accounts, we selected two pay periods (one month each) occurring in September 2019 and April 2020, and reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger (GL). We further selected nine of 102 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay were supported by salary schedules and personnel action forms;

- Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
- Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.
- To test material non-payroll expenditure accounts, we:
 - Selected a sample of 24 expenditure transactions to test key internal controls and the accuracy of recorded transactions;
 - Included in the sample all individually significant (material) transactions that exceeded \$25,000; and
 - Vouched expenditures recorded in the general ledger to supporting documents.
- We tested \$1,488,192 of \$11,623,215, or 12.8% of total expenditures.

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

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

Fund Balance Testing

- We judgmentally selected the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund, as these funds had revenue and expenditure accounts with significant balances.
- We tested revenue and expenditure transactions in these funds to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedules 1 and 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2020, were accurate and in compliance with applicable criteria.

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

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

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

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

We limited our review of the court's internal controls to gaining an understanding of the internal controls that are significant to the audit objective. We did not audit the court's financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles. However, we also identified instances of accounting errors and internal control deficiencies that are not significant to the audit objectives, but warrants the attention of management.

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

Follow-up on Prior Audit Findings

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

Views of Responsible Officials

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

Restricted Use

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

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

May 17, 2022

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

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

¹ Material account

² Tested account internal controls

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

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

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

¹ Material account

² Tested account internal controls

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

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

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

¹ Differences due to rounding.

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

Findings and Recommendations

FINDING 1— Unadjusted Revenues

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Automated Accrual Reversal Process

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2020 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2020.

Note: If an accrual was not recorded at year-end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year [adjustment] accounts are to be used in the subsequent fiscal year.

CRC rule 10.804(a) states:

As part of its responsibility for regulating the budget and fiscal management of the trial courts, the Judicial Council adopts the *Trial Court Financial Policies and Procedures Manual*. The manual contains regulations establishing budget procedures, recordkeeping, accounting standards, and other financial guidelines for superior courts. The manual sets out a system of fundamental internal controls that will enable the trial courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's FIN Manual (10th edition, June 2019) states:

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

Recommendation

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

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

FINDING 2— Unadjusted Expenditures

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

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

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

Automated Accrual Reversal Process

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2020 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2020.

Note: If an accrual was not recorded at year-end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year [adjustment] accounts are to be used in the subsequent fiscal year.

CRC rule 10.804(a) states:

As part of its responsibility for regulating the budget and fiscal management of the trial courts, the Judicial Council adopts the *Trial Court Financial Policies and Procedures Manual*. The manual contains regulations establishing budget procedures, recordkeeping, accounting standards, and other financial guidelines for superior courts. The manual sets out a system of fundamental internal controls that will enable the trial courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's FIN Manual states:

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

Recommendation

We recommend that the Court review entries to ensure that unaccrued prior-year transactions are reclassified by adjustment to the Prior Year Expenditure Adjustment account, GL Account Number 999910.

FINDING 3— Internal Control Deficiencies – missing vendor contracts

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

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

Recommendation

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

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

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

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

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

Recommendation

We recommend that the Court:

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

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



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF MADERA**

COURT ADMINISTRATION

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

HON. ERNEST J. LICALSI
PRESIDING JUDGE

HON. DALE J. BLEA
ASST PRESIDING JUDGE

ADRIENNE Y. CALIP
COURT EXECUTIVE OFFICER

AMY DOWNEY
ASST COURT EXECUTIVE OFFICER

April 4, 2022

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

Via Email

RE: Audit Report Fiscal Compliance Audit FY2019-2020

Mr. James,

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

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

Sincerely,

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

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

FINDING 1: Unadjusted Revenues

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

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

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

FINDING 2: Unadjusted Expenditures

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

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

FINDING 3: Internal Deficiencies – missing vendor contracts

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

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

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

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

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

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

**State Controller's Office
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