



Judicial Council of California

Administrative Office of the Courts

Trial Court Financial Policies and Procedures

Policy No.
Page

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FINANCIAL MANAGEMENT

POLICY NUMBER: AOC FIN 2.01

Original Release Date:

April 1, 2001

Effective Date:

September 1, 2010

Revision Date:

November 21, 2008

Financial Management

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2.0 Purpose

(Revised 9/10)

The purpose of this policy is to establish uniform guidelines for the trial court to monitor and control its fiscal operations and publicly account for its performance in accordance with California Rule of Court, No. Rule 10.804.

3.0 Policy Statement

(Revised 9/10)

1. It is the policy of the trial court to employ sound business, financial and accounting practices to conduct its fiscal operations. The court shall be responsible for monitoring and controlling its fiscal operations and accounting publicly for its financial performance through:
 - a. Adherence to high ethical standards.

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- b. The development of a long-range strategic plan.
- c. The application of generally accepted accounting principles (GAAP).
- d. The institution of a system of internal controls.
- e. The retention of financial and accounting records for appropriate periods.
- f. The issuance of financial reports that account for the court's use of public funds.

4.0 Application (Original 8/01)

This procedure applies to all trial courts of California including their employees and agents.

5.0 Definitions (Revised 9/10)

Refer to the Glossary for the following key terms used in this policy.

State Comprehensive Annual Financial Report (CAFR)
Generally Accepted Accounting Principles (GAAP)
Governmental Accounting Standards Board (GASB)
Lockyer-Isenberg trial Court Funding Act of 1997 (AB 233)
Quarterly Financial Statement (QFS)

6.0 Text

6.1 Financial Management Responsibilities

(Revised 9/10)

1. The National Center for State Courts, Commission on Trial Court Performance Standards has developed 22 standards that courts can use to measure their performance¹. The standards fall into five performance areas that encompass the courts' fundamental purposes and responsibilities. Area 4 addresses court **independence and accountability** and states that:

“Trial courts should establish their legal and organizational boundaries, monitor and control their operations, and account publicly for their performance.”

(Original 8/01)

2. The performance standards recognize the court's status as a public institution. They maintain that the court is responsible for developing action plans, obtaining resources for implementing the plans, monitoring its operations, and accounting publicly for its performance.

(Revised 9/10)

3. The 1997 passage of AB 233², which established the state's responsibility to fund the trial courts, began a new era of fiscal stability and accountability. The Judicial Council is dedicated to providing equal access to justice by fairly allocating funds to every trial court. The trial court is responsible for evaluating its needs and providing relevant workload and cost data so that the Judicial Council can establish funding priorities and compete for funds with other state programs. It is also the responsibility of the trial court to develop a

¹ <http://www.ncsconline.org/WC/CourTopics/overview.asp?topic=CtPerS>

² <http://www.courtinfo.ca.gov/reference/documents/tcfund.pdf>

long-range strategic plan for the efficient and effective use of resources, technology, and the incorporation of community needs and concerns.

6.2 Business Practices

(Original 8/01)

1. Trial court business practices should be guided by ethical standards befitting the judicial branch of the state's government. Trial court management shall promote compliance with all ethical standards, applicable statutes, and financial/accounting principles when exercising authority over the collection and disbursement of public monies.

(Revised 9/10)

2. One of the primary purposes of AB 233 was to make the courts more financially stable. Along with financial stability, the trial court assumes new responsibilities for administrative management, providing better service to the public and financial accountability. The Judicial Council has assured that these new challenges will be met by requiring the court to develop and maintain a long-range strategic plan. The plan must provide for the efficient, effective use of resources, the incorporation of new technology into court operations, and must address the needs and concerns of the community.

6.3 Accounting System

(Original 8/01)

1. The trial court shall utilize an efficient and organized accounting system that ensures the accurate reporting of all transactions. The court is responsible for assuring that the transactions recorded by its accounting system are supported by documentation and evidential matter that can withstand internal or external financial audits.

2. The key elements of an efficient and organized accounting system include an:
 - a. Organized and efficient method of accumulating, recording and reporting all transactions.
 - b. Effective assignment of authority and responsibility.
 - c. Effective approach to segregation of duties.
 - d. Efficient method of detecting errors and irregularities.

(Revised 9/10)

3. Financial transactions shall be executed and accounted for in accordance with generally accepted accounting principles. Trial courts shall also comply with the standards and principles established by the Governmental Accounting Standards Board (GASB), statutory requirements such as the Lockyer-Isenberg Trial Court Funding Act of 1997 (AB 233), Rule of Court 10.810, and administrative policies and procedures that apply to trial court fiscal management.
4. Accounting practices are discussed in more detail in Section 5-Accounting Practices of this manual.

6.4 Internal Controls

(Original 8/01)

1. The trial court shall maintain an effective system of internal controls that is integral to its management practices. A satisfactory system of internal controls includes, but is not limited to, the following:
 - a. **Segregation of Duties.** The court organization plan should provide for a proper segregation of duties that safeguards trial court assets. The objective is to eliminate or minimize opportunities to conceal errors and irregularities. Assignment of

work to trial court employees should be based on the rule that no one individual controls all phases of an activity or transaction.

- b. **Standard Operating Procedures.** All trial court departments/ organizations should develop and enforce a system of operating procedures for employees to follow in performing their duties and functions. Such operating procedures should explain the implication of financial transactions and define trial court employees' responsibilities and their accountability for court resources.
- c. **Competent Personnel.** The trial court shall maintain high standards of employee competence and integrity. Competence should be established through a combination of education, training, and experiences so that employees may accomplish their assigned duties in the prescribed manner and help management achieve its goals.

(Revised 9/10)

- d. **Transaction Authorization and Documentation.** The trial court shall establish a system of authorization that provides effective management control over assets, liabilities, revenues and expenditures.
 - e. **Internal Review.** Each trial court shall establish an effective internal review system to provide checks and balances applicable to all financial transactions.
 - f. **Audits** conducted by the AOC Internal Audit Services Unit.
2. A more detailed discussion of internal controls is provided in Policy No. FIN 1.03 Internal Controls.

6.5 Accounting Records

(Original 8/01)

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.
 - b. Provide sufficient evidence and justification for all transactions.
 - c. Maintain accountability for trial court assets and resources.
 - d. Document accountability of trial court employees who execute and process financial transactions.
 - e. Permit preparation of accurate, informative and reliable reports that conform to applicable criteria.
 - f. Support management during internal reviews and external audits.

(Revised 9/10)

2. A more detailed discussion of record retention procedures is provided in Policy No. FIN 12.01 Record Retention.

6.6 Financial Reporting

(Original 8/01)

1. The trial court is obligated to account for its use of public funds. To satisfy this obligation, the court prepares and issues periodic financial statements. The GASB Concepts Statement 1 defines the objectives of financial reporting as follows:
 - a. Financial reporting should assist in fulfilling the government's duty to be publicly accountable and should enable users to assess that accountability.
 - b. Financial reporting should assist users in evaluating the operational results of the governmental entity for the year.

- c. Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.
2. Financial reports that are effective and useful exhibit certain common characteristics. As defined in GASB Concepts Statement 1, effective financial reports are understandable, reliable, relevant, timely, consistent, and comparable.
3. The primary use of trial court financial reports is to assess the court's accountability in its use of public funds. According to GASB Concepts Statement 1 financial reports accomplish this by:
 - a. Comparing actual financial results with the legally adopted budget.
 - b. Assessing financial condition and results of operations.
 - c. Assisting in determining compliance with finance-related laws, rules and regulations.
 - d. Assisting in evaluating efficiency and effectiveness.
4. The users of financial reports issued by the trial court and other government agencies fall into three groups identified by GASB Concepts Statement 1:
 - a. Citizens, the media, advocate groups, and public finance researchers.
 - b. Legislative and oversight officials.
 - c. Investors and creditors.
- (Revised 9/10)
5. The trial court financial reporting function includes, but is not limited to, preparation of the following reports:

- a. Quarterly Financial Statements (QFS) for submittal to the Administrative Office of the Courts (AOC).
 - b. State Comprehensive Annual Financial Report (CAFR) financial information for submittal to the AOC.
 - c. Monthly Cash Settlement reports to the County to report revenue collection and distribution.
 - d. Schedule 1 for submittal to the AOC.
6. In addition, the court should prepare internal reports to assist it in monitoring its financial condition and fiscal operations (including, but not limited to):
- a. Monthly summaries of financial activities and review transactions for propriety and reasonableness.
 - b. Monthly budgetary reports to compare actual revenues and expenditures to budget items.
 - c. Monthly cash flow reports to analyze the current position and project future needs.
 - d. Monthly reimbursement claims for grants and other state or federal programs.
- (Original 8/01)
7. The trial courts shall apply GAAP, GASB and other government and public entity standards to prepare financial and other required reports. Exceptions should be disclosed in the form of qualifications or footnotes to the financial statements or reports.

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7.0 Associated Documents
(Original 8/01)

None