JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE
ON FINANCIAL ACCOUNTABILITY
AND EFFICIENCY FOR THE JUDICIAL BRANCH

www.courts.ca.gov/aecommittee.htm
aecommittee@jud.ca.gov

ADVISORY COMMITTEE ON FINANCIAL ACCOUNTABILITY AND EFFICIENCY FOR THE JUDICIAL BRANCH

OPEN MEETING WITH CLOSED SESSION AGENDA

Open to the Public Unless Indicated as Closed (Cal. Rules of Court, rule 10.75(c)(1))

THIS MEETING IS BEING CONDUCTED BY ELECTRONIC MEANS

OPEN PORTION OF THIS MEETING IS BEING RECORDED

Date:	January 15, 2016
Time:	12:00 noon to 1:30 p.m.
Public Call-In Number:	1-877-820-7831, Listen Only Public Access Code: 4045700

Meeting materials for open portions of the meeting will be posted on the advisory body web page on the California Courts website at least three business days before the meeting.

Agenda items are numbered for identification purposes only and will not necessarily be considered in the indicated order.

I. OPEN MEETING (CAL. RULES OF COURT, RULE 10.75(C)(1))

Call to Order and Roll Call

Approval of Minutes

Approve minutes of the July 29, 2015, Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch meeting.

II. PUBLIC COMMENT (CAL. RULES OF COURT, RULE 10.75(K)(2))

Written Comment

In accordance with California Rules of Court, rule 10.75(k)(1), written comments pertaining to any agenda item of a regularly noticed open meeting can be submitted up to one complete business day before the meeting. For this specific meeting, comments should be e-mailed to aecommittee@jud.ca.gov or mailed or delivered to 2860 Gateway Oaks Drive, Suite 400, Sacramento, CA 95833, attention: Pam Reynolds. Only written comments received by 12:00 noon January 14, will be provided to advisory body members prior to the start of the meeting.

III. DISCUSSION AND POSSIBLE ACTION ITEMS (ITEMS 1–2)

Item 1

Audit Report by the Department of Finance, Office of State Audits and Evaluations: Judicial Council of California's Fiscal Compliance Audit

Judicial Council of California's fiscal compliance for the fiscal year July 1, 2013, through June 30, 2014

Presenters: Zlatko Theodorovic, Director, Finance Office, JCC
Patricia Haggerty, Principal Manager, Finance Office, JCC

Item 2

Audit Report by the California State Auditor: Judicial Branch Procurement
Although the Judicial Council needs to strengthen controls over its information systems, its procurement practices generally comply with applicable requirements, Report 2015-302

Presenters: Zlatko Theodorovic, Director, Finance Office, JCC
Patricia Haggerty, Principal Manager, Finance Office, JCC

IV. Information Only Items (No Action Required)

None

V. Adjournment of Open Meeting Session

Adjourn to Closed Session

VI. Closed Session (Cal. Rules of Court, Rule 10.75(d))

Closed pursuant to California Rules of Court, rule 10.75(d)(6): *Non-final audit reports or proposed responses to such reports*

Item 1

Discuss the pending audit report of the Superior Court of California, County of Tulare (Action Required)

Presenters: John Judnick, Principal Manager, Audit Services, JCC
Robert Cabral, Audit Supervisor, Audit Services, JCC

Item 2

Discuss the pending audit report of the Superior Court of California, County of Yolo (Action Required)

Presenters: John Judnick, Principal Manager, Audit Services, JCC
Robert Cabral, Audit Supervisor, Audit Services, JCC

Adjourn Closed Session

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ADVISORY COMMITTEE ON FINANCIAL ACCOUNTABILITY AND EFFICIENCY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING

July 29, 2015
12:00 noon to 12:45 p.m.
Conference Call

Advisory Body Members Present:	Justice Richard Huffman, Judge David Abbott, Judge Lorna Alksne, Judge Kim Dunning, Judge Jill Fannin, Ms. Kimberly Flener, Judge Michele Flurer, Judge Joyce Hinrichs, Judge Teri Jackson, Mr. Michael Planet, Ms. Teresa Risi, Mr. Michael Roddy, Ms. Kim Turner
Advisory Body Members Absent:	Justice Kathleen O'Leary
Others Present:	Ms. Jody Patel, Mr. Curt Soderlund, Mr. John Judnick, Mr. Zlatko Theodorovic, Ms. Dianne Bolotte, Ms. Angela Guzman, Ms. Renea Stewart, Ms Melanie Hayden, Mr. Michael Derr, Ms. Donna Hershkowitz, Ms. Viktoriya Volzhenina

OPEN MEETING

Call to Order and Roll Call

The chair called the meeting to order at 12:05 p.m., and roll call was taken by Mr. Judnick.

Approval of Minutes

The advisory body reviewed and unanimously approved the minutes of the June 8, 2015 Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch meeting.

DISCUSSION AND ACTION ITEM

Item 1

FY 2016-2017 Judicial Council Budget Change Proposals *(BCPs)*

Action: All of the five proposals presented were unanimously approved by the committee for submission to the Judicial Council except for the Information Systems Controls Enhancement BCP which was approved with one member opposing it. The five proposals are:

1. Implementation of Language Access Plan
2. Supreme Court and Court of Appeal Document Management System
3. Increased Costs for Operation & Maintenance of Facilities and Facility Modifications for the Judicial Branch Facilities Program

4. Judicial Council Classification and Compensation Study
5. Information Systems Controls Enhancement

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:45 p.m.

Approved by the advisory body on enter date.

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

August 24, 2015

Honorable Tani Cantil-Sakauye, Chief Justice
Judicial Council of California
455 Golden Gate Avenue
San Francisco, CA 94120-3688

Dear Chief Justice Cantil-Sakauye:

Final Report—Judicial Council of California's Fiscal Compliance Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its fiscal compliance audit of the revenues, expenditures, and fund balances under the administration, jurisdiction, or control of the Judicial Council of California (Council) staff for the period July 1, 2013 through June 30, 2014.

The enclosed report is for your information and use. The Council's response to the report observations is incorporated into this final report. The Council agreed with our observations and provided additional clarification related to fiscal control weaknesses A and C. We appreciate the Council's willingness to implement corrective actions. This report will be placed on our website.

A detailed Corrective Action Plan (CAP) addressing the fiscal control weaknesses and recommendations is due within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all fiscal control weaknesses.

We appreciate the assistance and cooperation of the Council. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Martin Hoshino, Administrative Director, Judicial Council of California
Ms. Jody Patel, Chief of Staff, Judicial Council of California
Mr. Curt Soderlund, Chief Administrative Officer, Judicial Council of California
Mr. Zlatko Theodorovic, Chief Financial Officer and Director of Finance, Judicial Council of California
Ms. Pat Haggerty, Assistant Director, Finance Office, Judicial Council of California
Mr. John A. Judnick, Senior Manager, Audit Services Office, Judicial Council of California

Additional ccs

cc: Mr. Daniel Alvarez, Secretary of the Senate, Office of the Secretary of State
Mr. E. Dotson Wilson, Chief Clerk, California State Assembly, Office of the Chief Clerk
Ms. Diane F. Boyer-Vine, Legislative Counsel, Office of Legislative Counsel
Ms. Amy Leach, Journal Clerk, California State Assembly, Office of the Chief Clerk

PERFORMANCE AUDIT

Judicial Council of California's Fiscal Compliance for the Fiscal Year July 1, 2013 through June 30, 2014

Earl Warren Building in San Francisco

Prepared By:
Office of State Audits and Evaluations
Department of Finance

150270067

May 2015

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Rick Cervantes, CPA
Supervisor

Staff
Jason Narayan
Vanessa Rios
Blanca Sandoval
David Shockey

Final reports are available on our website at http://www.dof.ca.gov

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

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EXECUTIVE SUMMARY

In accordance with Government Code section 77206(i)(1), the Department of Finance, Office of State Audits and Evaluations (Finance), audited the Judicial Council of California (Council) staff's (formerly the Administrative Office of the Courts) compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff for the period July 1, 2013 through June 30, 2014.

Our audit objectives were to determine whether:

- Revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.
- Expenditures were incurred pursuant to authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

RESULTS

The revenues, expenditures, and fund balances subject to the administration, jurisdiction, or control of Council staff complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records, and maintained in accordance with fund accounting principles. However, while performing procedures related to our audit objectives, we identified the following fiscal control weaknesses. Implementing corrective actions will assist Council staff to ensure continued accountability and compliance with governing statutes, rules, regulations, and policies. To improve operations, Council staff must develop a corrective action plan to address the observations and recommendations noted in this report.

- **Employee receivables and payables were not cleared timely,** increasing the risk that funds due to the Council will not be collected. Untimely payment of amounts due to employees could expose the Council to potential legal risks.
- **Vendor payment duties were not adequately segregated,** creating a risk that fraudulent payments could be issued to fictitious vendors.
- **Deposits were not always allocated timely,** limiting the availability of the funds for their specified purpose.
- **Reconciliations are not properly reviewed,** resulting in an increased risk of errors, omissions, or irregularities, which could reduce the integrity of financial information.
- **Some policies and procedures were not documented,** increasing the risk that documents or transactions may be processed improperly and creating key person dependency.

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

The Judicial Council of California (Council), chaired by the Chief Justice, establishes policies and priorities for the statewide administration of justice in the California courts (Courts) to ensure the consistent, independent, impartial, and accessible administration of justice.[1]

Staff to the Council (formerly the Administrative Office of the Courts and referred to as Council staff throughout this report) implements Council policy and serves the Courts, justice partners, and the public, and provides access to justice through a variety of programs and services. Some of the programmatic and fiscal services provided by the Council staff include facilitating court construction, issuing and renewing court interpreter licenses, providing training and education services, accounting, auditing, budgeting, contracting, human resources services, procurement, and information technology services.[2] The Council staff's Administrative Division Finance Office, Accounting and Business Services Unit (ABSU), performs the accounting services for the Council, Council staff, Habeas Corpus Resource Center, Supreme Court, and Courts of Appeal.

SCOPE AND METHODOLOGY

In accordance with Government Code section 77206(i)(1), the Department of Finance, Office of State Audits and Evaluations (Finance), audited Council staff's compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff for the period July 1, 2013 through June 30, 2014.

Our audit objectives were to determine whether:

- Revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.
- Expenditures were incurred pursuant to authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

Our audit was limited to evaluating compliance of revenues, expenditures and fund balances for material and significant funds under the administration, jurisdiction, or control of Council staff. This includes programs and funds for which Council staff review, approve, and record accounting transactions. We considered funds with revenues or expenditures over four percent of the total revenues or expenditures, respectively, as material and significant.

[1] http://www.courts.ca.gov/home.htm
[2] http://www.courts.ca.gov/jcstaff.htm

While ABSU records accounting transactions for the Supreme Court, Courts of Appeal, and Habeas Corpus Resource Center, the review and approval authority for these transactions remains with those programs. Therefore, the revenues and expenditures related to those programs were determined not to be under the administration, jurisdiction, or control of Council staff and were excluded from the audit.

To avoid duplication of efforts, Finance did not audit revenues and expenditures audited by the Council staff's Audit Services Office, the State Controller's Office, or the California State Auditor. See Appendix A for programs and funds included in our audit. See Appendix B for the audit methodology and procedures performed.

Council staff management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and administrative requirements. In conducting our audit, we obtained an understanding of Council staff's internal controls, including any information systems controls, significant within the context of our audit objectives, and assessed whether those controls were properly designed and implemented. For the Oracle financial system, we determined that the data was sufficiently reliable for the purposes of conducting this audit. However, we identified fiscal control weaknesses which are discussed in the Results section of this report.

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

RESULTS

The Judicial Council of California (Council) staff complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances subject to the administration, jurisdiction, or control of Council staff. However, we identified fiscal control weaknesses as described in the Internal Control section below. Implementing corrective actions will assist Council staff to ensure continued accountability and compliance with governing statutes, rules, regulations, and policies.

Revenues

The fiscal year 2013-14 revenues were received in accordance with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.

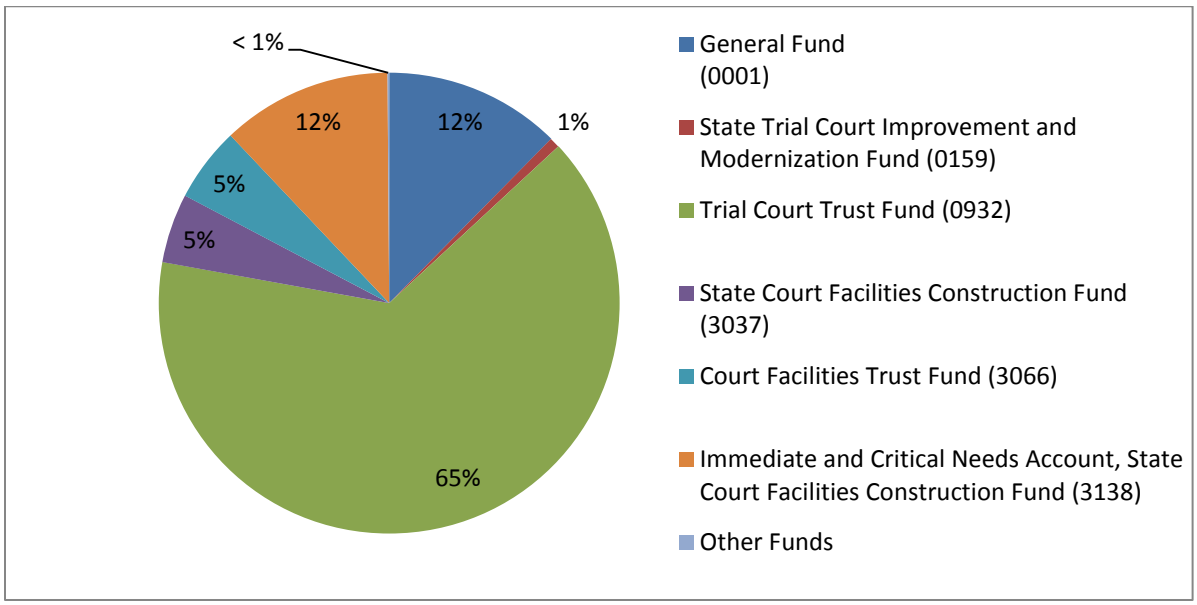
Of the 17 funds the Council staff administers, 11 funds received revenues during 2013-14. Table 1 displays the revenue reported by fund. Funds that were less than 1 percent of the total revenue were combined. As depicted in Figure 1, the Trial Court Trust Fund, General Fund, and Immediate and Critical Needs Account, State Court Facilities Construction Fund received 89 percent of total revenues.

Table 1: 2013-14 Revenues by Fund

Fund Number	Fund Name	Amount	Percent of Total Revenues
0932	Trial Court Trust Fund	$1,255,135,854	65
0001	General Fund	240,052,505	12
3138	Immediate and Critical Needs Account, State Court Facilities Construction Fund	231,475,395	12
3066	Court Facilities Trust Fund	101,466,672	5
3037	State Court Facilities Construction Fund	94,301,155	5
0159	State Trial Court Improvement and Modernization Fund	14,069,851	1
	Other Funds[1]	2,300,360	<1
	Total Revenue	**$1,938,801,792**	**100**

[1] Other Funds include the Family Law Trust Fund (0587), Court Interpreters' Fund (0327), Judicial Branch Workers' Compensation Fund (9728), Special Deposit Fund (0942), and Mental Health Services Fund (3085).

Figure 1: 2013-14 Revenues by Fund



Revenues Received and Accounted for by the Council's Accounting and Business Services Unit

Revenues of $191 million, or 10 percent of total revenues, were collected and recorded by the Council staff's Administrative Division, Finance Office, Accounting and Business Services Unit (ABSU). These revenues represent transfers from other funds, court interpreter license fees, miscellaneous revenue, and donations. The Government Codes cited in the Department of Finance's (Finance) *Manual of State Funds* (*Manual of State Funds*) provides the authority for the collection of these revenues.

The two largest transactions consisted of a $200 million transfer from the State Court Facilities Construction Fund, Immediate and Critical Needs Account (Fund 3138) to the Council staff's General Fund and a $9 million General Fund prior year revenue adjustment. The transfer was supported by Finance Executive Orders, and the prior year adjustment was made in accordance with standard Legal/Budgetary accounting procedures and represents prior year accrued revenues.

Revenues Collected and Received from the Trial Courts, Counties, and Cities

The trial courts collected and remitted $1.75 billion, or 90 percent of the total revenues. These revenues consist of fees for services, licenses, other fees, fines, assessments, penalties, and interest as authorized by the Government Codes cited in the *Manual of State Funds*.

The State Controller's Office (SCO) processes the remittances and credits the revenues to the appropriate fund. Based on the SCO journal entry, ABSU records these transactions in the appropriate funds.

We confirmed that SCO performs court collection revenue audits in accordance with Government Code sections 68103 and 68104.[2] Specifically, SCO determines whether all collections due to the state are completely and accurately remitted to the State Treasurer. If funds are not remitted as required, SCO requires remittance of the funds and assesses penalties in accordance with Government Code sections 68085, 70353, and 70377.

In addition to the SCO audits, the Council staff's Audit Services Office performs trial court audits and internal audits that include the Capital Program Office and Real Estate & Facilities Management Office. These two offices have oversight of Facilities Trust Fund revenues, including court facility payments and property use revenue.

Expenditures

The 2013-14 expenditures were incurred pursuant to the authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and accurately recorded in the accounting records.

The Council staff recorded $4.1 billion in expenditures in 17 funds as portrayed in Table 2. Funds with less than 1 percent of the total expenditures were combined. The Trial Court Trust Fund, General Fund, and Public Buildings Construction Funds comprise 91 percent of the expenditures. See Figure 2.

Table 2: 2013-14 Expenditures by Fund

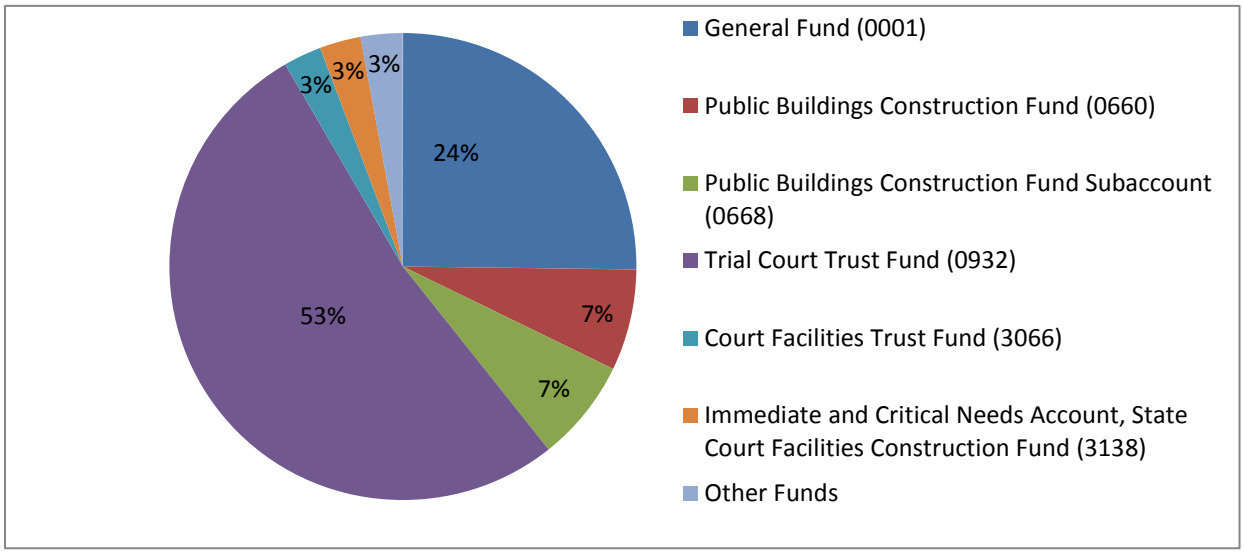
Fund Number	Fund Name	Amount[3]	Percent of Total Expenditures
0932	Trial Court Trust Fund	$2,164,222,277	53
0001	General Fund	993,119,815	24
0668	Public Buildings Construction Fund Subaccount	293,404,196	7
0660	Public Buildings Construction Fund	289,867,419	7
3138	Immediate and Critical Needs Account, State Court Facilities Construction Fund	117,588,945	3
3066	Court Facilities Trust Fund	108,826,807	3
	Other Funds[4]	120,471,972	3
	Total Expenditures	**$4,087,501,431**	**100**

[2] SCO's court collection revenue audit reports are posted on SCO's website at http://www.sco.ca.gov/aud_court_revenues.html.

[3] Expenditures include accruals, but not encumbrances.

[4] Other Funds include the Motor Vehicle Account, State Transportation Fund (0044), State Trial Court Improvement and Modernization Fund (0159), Court Interpreters' Fund (0327), Family Law Trust Fund (0587), Federal Trust Fund (0890), Special Deposit Fund (0942), State Court Facilities Construction Fund (3037), Mental Health Services Fund (3085), State Community Corrections Performance Incentives Fund (8059), Judicial Branch Workers' Compensation Fund (9728), and Court Facilities Architecture Revolving Fund (9733).

Figure 2: 2013-14 Expenditures by Fund



We reviewed $752.6 million of the $4.1 billion (18 percent) in total expenditures. Expenditure transactions reviewed were selected from the six largest funds as presented in Table 2 and Figure 2. The types of transactions reviewed included personnel, utilities, rent, construction, grants, assigned judges, court appointed council, maintenance, and transfers.

The expenditure transactions reviewed complied with the applicable Government Codes displayed in the *Manual of State Funds*. Additionally, all the expenditures reviewed were supported by documentation such as timesheets and related personnel payment history reports, invoices, joint occupancy agreements, lease agreements, memoranda of understanding, contracts, grant agreements, and SCO journal entries. Further, the transactions were recorded in the correct fund and processed in accordance with the Council staff's internal accounting policies and procedures.

Fund Balances

The fund balances were reported based on the Legal/Budgetary basis of accounting and in accordance with fund accounting principles. Based on a sample of 5 of the 17 funds, the revenue and expenditure transactions which close into the fund balance clearing account at year-end complied with applicable Government Codes. No unusual or unexplained changes in the fund balances were identified and recalculations of fund balances did not disclose any variances.

Fund balances represent the excess of a fund's assets over its liabilities. During the fiscal year, if revenues exceed the expenditures, the fund balance will increase. Conversely, if the expenditures exceed the revenues during a fiscal year, the fund balance will decrease.

Many funds are shared by various state entities. For the shared funds, one state entity is appointed as the fund administrator, except for the General Fund. Each entity receiving revenues or expending from a shared fund records the accounting transactions separately within its accounting records. Therefore, the fund balances reported by Council staff for each shared fund only represents the Council's portion of the fund balance, and does not represent the entire fund balance. The fund administrator is responsible for overall management of the shared fund.

As presented in Table 3 below, 9 of the 17 funds were under the sole administration, jurisdiction, or control of Council staff. However, 8 of the 17 funds were shared with other state entities. Table 4 displays the shared funds and the designated fund administrator.

Table 3: Judicial Council Administered Funds

Fund Number	Fund Name	Fund Administrator
0159	State Trial Court Improvement and Modernization Fund	Judicial Council
0327	Court Interpreters' Fund	Judicial Council
0587	Family Law Trust Fund	Judicial Council
0932	Trial Court Trust Fund	Judicial Council
3037	State Court Facilities Construction Fund	Judicial Council
3066	Court Facilities Trust Fund	Judicial Council
3138	Immediate and Critical Needs Account, State Court Facilities Construction Fund	Judicial Council
9728	Judicial Branch Workers' Compensation Fund	Judicial Council
9733	Court Facilities Architecture Revolving Fund	Judicial Council

Table 4: Judicial Council Shared Funds

Fund Number	Fund Name	Fund Administrator
0001	General Fund	Each entity is responsible for its share of this fund.
0044	Motor Vehicle Account, State Transportation Fund	Department of Motor Vehicles
0660	Public Buildings Construction Fund	Public Works Board
0668	Public Buildings Construction Fund Subaccount	Public Works Board
0890	Federal Trust Fund	State Controller's Office
0942	Administration of Justice Special Deposit Fund	State Controller's Office
3085	Mental Health Services Fund	Department of Health Care Services
8059	State Community Corrections Performance Incentives Fund	California Department of Corrections and Rehabilitation

Internal Control

While performing procedures related to our audit objectives, we identified fiscal control weaknesses. The *Judicial Council Governance Policies* promote advancing the highest standards of accountability to the Executive Branch, Legislative Branch, and people of California for the use of public resources and adherence to statutory and constitutional mandates.

Implementing corrective actions will assist Council staff to ensure continued accountability and compliance with governing statutes, rules, regulations, and policies. The weaknesses indicated as unresolved audit findings were previously reported to Council staff in an audit report issued by the Department of Finance on May 17, 2011. The fiscal control weaknesses include the following:

A. ***Employee receivables and payables were not cleared timely.*** Employee receivables outstanding over 90 days totaled $102,826 as of June 2014, and increased to $129,282 as of November 30, 2014. In addition, monies owed to employees totaled $10,578 as of June 30, 2014 and increased to $11,154 as of November 30, 2014. Failure to timely clear receivables in accordance with SCO Payroll Procedures Manual, sections I 007 and I 180, increases the risk that monies due to the Council will not be collected. Further, untimely payment of amounts due to employees could expose the Council to potential legal risks. This weakness represents an unresolved prior audit finding.

B. ***Vendor payment duties were not adequately segregated.*** The Supervising Accountant in ABSU's Accounts Payables Unit has access to input and approve payments to vendors and edit the approved vendor master file. This incompatible information system access creates a risk that fraudulent payments could be issued to fictitious vendors.

C. ***Deposits were not always allocated timely.*** As of January 30, 2015, deposits made during 2013-14 totaling $949,906 (consisting of four checks, three of which represented insurance settlements) had not been allocated to the appropriate account for a period of 12 to 16 months. Deposits should be allocated to the appropriate account timely so that the funds can be used for their specified purpose.

D. ***Reconciliations were not properly reviewed.*** Reviews of the following monthly reconciliations were not performed:
   - State Controller's Appropriation and Executive Order balances with the unexpended allotments
   - Bank statements with accounting records

   Timely and proper reviews reduce the risk of errors, omissions, and irregularities and ensure the integrity of financial reporting. This weakness represents an unresolved prior audit finding.

E. ***Some policies and procedures were not documented.*** Specifically, Council staff's policies and procedures do not document the following:
   - Revenue collection for court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts
   - Fund reconciliations
   - Art purchases
   - Property Management Accounting Unit review of invoices

Lack of properly documented policies and procedures increases the risk that documents or transactions may be processed improperly and creates key person dependency. The lack of documented policies and procedures for art purchases represents an unresolved prior audit finding.

Recommendations:

A. Timely collect and clear employee receivables and payables.

B. Reassign incompatible duties to ensure individuals that can input and approve payments cannot also update the approved vendor master file.

C. Ensure deposits are posted to the appropriate account timely.

D. Timely review reconciliations. Both the reviewer and preparer should sign and date the reconciliations.

E. Develop policies and procedures for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts), fund reconciliations, art purchases, and Property Management Accounting Unit review of invoices.

APPENDIX A

Programs and Funds Included in Audit

Government Code section 77206(i)(1) requires an audit of all material and significant funds under the administration, jurisdiction, or control of the Judicial Council of California (Council) staff. Funds for which the Council staff review, approve, and record the accounting transactions were considered to be under the administration, jurisdiction, or control of the Council's staff. Based on this determination, the following programs and funds were included in the audit:

Programs[1]

- Judicial Council, Program 30
- Judicial Branch Facility, Program 35
- State Trial Court Funding, Program 45 (Revenue allocations made to the trial courts were included in the audit, but expenditures of those allocations made by the trial courts were excluded)
- Capital Outlay, Program 91

Funds

1. General Fund (0001)
2. Motor Vehicle Account, State Transportation Fund (0044)
3. State Trial Court Improvement and Modernization Fund (0159)
4. Court Interpreters' Fund (0327)
5. Family Law Trust Fund (0587)
6. Public Buildings Construction Fund (0660)
7. Public Buildings Construction Fund Subaccount (0668)
8. Federal Trust Fund (0890)
9. Trial Court Trust Fund (0932)
10. Special Deposit Fund (0942)
11. State Court Facilities Construction Fund (3037)
12. Court Facilities Trust Fund (3066)
13. Mental Health Services Fund (3085)
14. Immediate and Critical Needs Account, State Court Facilities Construction Fund (3138)
15. State Community Corrections Performance Incentives Fund (8059)
16. Judicial Branch Workers' Compensation Fund (9728)
17. Court Facilities Architectural Revolving Fund (9733)

[1] The Supreme Court (Program 10), Courts of Appeal (Program 20), and Habeas Corpus Resource Center (Program 50) are the responsibility of other Judicial Branch entities.

APPENDIX B

Methodology

To adequately plan the audit, we performed general procedures, evaluated internal controls, and assessed the reliability of data significant to the audit objectives. Based on the results, we designed our audit procedures to address the specific audit objectives. See below for the general and specific procedures performed.

To Plan the Audit	
General procedures used to perform the audit.	1. Reviewed the *Judicial Council Governance Policies*, Budget Act, *Manual of State Funds*, Government Codes, Rules of the Court, and relevant internal policies and procedures to identify compliance requirements applicable to Judicial Council staff for revenues, expenditures, and fund balances. 2. Followed up on the status of prior findings identified in the Department of Finance audit report issued on May 17, 2011.
Understanding the internal control environment specific to the audit objectives.	1. Reviewed current policies and procedures, organization charts, and the Judicial Council of California's (Council) website, and interviewed Council staff to gain an understanding of the internal control environment. 2. Determined the significant internal controls within the context of the audit objectives. 3. Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties are properly designed, implemented, and operating effectively. 4. Determined impact to the audit objective of the identified internal control weaknesses.

To Plan the Audit	
Assessing reliability of data significant to the audit objectives.	1. Identified the information systems used to process and account for the revenues, expenditures, and fund balance transactions. 2. Interviewed staff and reviewed documented policies and procedures regarding security, data entry, processing, and reporting to gain an understanding of information technology systems and data significant to the audit objectives. 3. Compared the data to other sources to determine the completeness accuracy of the data in the Oracle financial system. 4. Evaluated the electronic access controls over the Oracle financial system. 5. Determined whether the data was sufficiently reliable for conducting the audit.
To Address Specific Audit Objectives	
Audit Objective	**Procedures**
Determine whether revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records.	1. Identified the funds and revenues received under the administration, jurisdiction, or control of Council staff. 2. For funds identified above, determined whether Council staff or other entities received and accounted for and/or audited the revenue. 3. For revenues received and accounted for by Council staff that were not audited by other entities, selected a sample of transactions over 4 percent of the total revenue and determined whether the revenue reported was received and accounted for in accordance with authorizing Government Codes, properly supported with adequate documentation, and accurately reported in the accounting records. 4. For revenues received and accounted for by other entities, determined whether audits are performed by other entities to ensure the revenues are received, accounted for, and remitted.

To Address Specific Audit Objectives	
Audit Objective	**Procedures**
Determine whether expenditures were incurred pursuant to authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.	1. Identified the funds and amount of expenditures recorded under the administration, jurisdiction, or control of the Council staff. 2. For the 6 largest funds identified in Step 1, selected expenditure transactions for review. 3. For funds identified in Step 2, selected expenditure categories exceeding 4 percent of the fund's total expenditures. 4. For the sample selected, determined whether expenditures were incurred pursuant to the authorizing Government Codes, consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records.
Audit Objective	**Procedures**
Determine whether fund balances are reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.	1. Selected a sample of funds with fund balances over $100 million as of June 30, 2014, or with balances that fluctuated by more than 25 percent from the prior period. 2. Consider results of revenue and expenditure testing to assess whether the transactions were reported based on the Legal/Budgetary basis of accounting and recorded in accordance with fund accounting principles. 3. Recalculated sampled funds to ensure fund balances are accurate and in compliance with applicable criteria.

JUDICIAL COUNCIL OF CALIFORNIA

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

MARTIN N. HOSHINO
Administrative Director

August 5, 2015

Mr. Richard R. Sierra, Chief
Office of State Audits and Evaluations
Department of Finance
915 L Street, Sixth Floor
Sacramento, California 95814

Dear Mr. Sierra:

As the Administrative Director for the Judicial Council of California, I am pleased to acknowledge receipt of the audit report for the period July 1, 2013 through June 30, 2014, required by Government Code section 77206(i)(1). This performance audit of the Judicial Council of California focuses on fiscal compliance and provides several recommendations that will enhance the transparency, accountability, and efficiency of the Judicial Branch.

Judicial Council staff and I understand the issues and recommendations that resulted from your work and welcome input on internal controls, processes, and procedures that will improve our financial operations. We acted on one of the recommendations immediately when you informed us of your concern regarding the segregation of duties. Council staff is working on the other recommendations to implement corrective actions that will assist the staff in ensuring continued accountability and compliance with governing statutes, rules, regulations, and policies.

Enclosed are our detailed responses to implement the recommendations of your audit. Thank you for your team's work on the audit and the opportunity to respond to it.

Sincerely,

Originally signed by

Martin Hoshino
Administrative Director

Enclosure
cc: Ms. Jody Patel, Chief of Staff, Judicial Council of California
Mr. Curt Soderlund, Chief Administrative Officer, Judicial Council of California
Mr. Zlatko Theodorovic, Chief Financial Officer and Director of Finance, Judicial Council of California
Ms. Pat Haggerty, Assistant Director, Finance, Judicial Council of California
Mr. John Judnick, Senior Audit Manager, Audit Services, Judicial Council of California

Office of State Audits and Evaluations
Performance Audit Report of July 2015
Detailed Response to Issues and Recommendations

Issue and Recommendation No. 1

Issue: Employee receivables and payables were not cleared timely.
Recommendation: Timely collect and clear employee receivables and payables.
Status: Ongoing monitoring

Employee receivables and payables are tracked closely by Judicial Council staff. When benefit changes occur or new employees are hired, the State Controller may take up to three months to key in the changes to benefits into their system. Judicial Council staff cannot process amounts due or payable timely because of the lag time of implementation into the system. Judicial Council staff discuss with employees the delay and manner in which employees wish to pay the amounts due (payroll deduction, check, etc.). In addition, to minimize undue hardship on employees when they owe large amounts, employees have the option to participate in a payment plan for a defined period. Payment plans result in amounts that appear not to be cleared in full on a timely basis, however, all amounts due are tracked under agreed upon payment terms and are reconciled monthly.

Issue and Recommendation No. 2

Issue: Vendor payment duties were not adequately segregated.
Recommendation: Reassign incompatible duties to ensure individuals that can input and approve payments cannot also update the approved vendor master file.
Status: Fully implemented

The accounting supervisor's access to the Vendor Master File was removed immediately after staff was notified of the auditors' concern. Vendor Master File access is now limited to two individuals with no payables access.

Issue and Recommendation No. 3

Issue: Deposits were not always allocated timely.
Recommendation: Ensure deposits are posted to the appropriate account timely.
Status: Ongoing monitoring

Checks are deposited in the Judicial Council's local revolving fund as soon as they are received in Accounting; all four checks noted in the audit as distributed late were deposited timely. Checks that have a clear indication of where they should be posted are posted to the fund and account code timely by Accounting. When Accounting receives a check and is unable to determine to what fund and account to post the monies, Accounting asks the applicable office for research and documentation. Three of the four aforementioned checks were distributed late because they were for insurance settlements; the fourth was mistakenly noted to be an insurance settlement. Construction insurance settlements are applied to funds and accounts after the damage remediation occurs and those related costs are paid and accounted for; this

process often has an inherent prolonged time frame. Accounting will continue to monitor and follow up on received and deposited checks that have not been posted to the appropriate funds and accounts.

Issue and Recommendation No. 4

Issue: Reconciliations were not properly reviewed.

Recommendation: Timely review reconciliations. Both the reviewer and preparer should sign and date the reconciliations.

Status: Fully implemented

The General Ledger Unit of Accounting has a process in place to timely review all reconciliations, with the preparer and reviewer initialing and dating that review. The General Ledger accounting supervisor will monitor the timeliness of the review process regularly.

Issue and Recommendation No. 5

Issue: Some policies and procedures were not documented.

Recommendation: Develop policies and procedures for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts), fund reconciliations, art purchases, and Property Management Accounting Unit review of invoices.

Status: Pending

By November 1, 2015, internal policies and procedures will be developed for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts), fund reconciliations, and for the Property Management Accounting Unit review of invoices.

Also by November 1, 2015, an art purchases policy will be approved by the Judicial Council. Currently, a draft *Judicial Council Policy on Art Acquisition for Court Facilities* has been prepared and will be reviewed by various advisory committees before submission to the Judicial Council.

California State Auditor

December 2015

Judicial Branch Procurement

Although the Judicial Council Needs to Strengthen Controls Over Its Information Systems, Its Procurement Practices Generally Comply With Applicable Requirements

Report 2015-302

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California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

December 10, 2015 2015-302

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

Dear Governor and Legislative Leaders:

As required by California Public Contract Code, Section 19210, the California State Auditor (state auditor) presents this audit report concerning the procurement policies and practices of the Judicial Council of California (Judicial Council). The California Public Contract Code generally governs how state entities should enter into contracts and acquire goods and services. Enacted in 2011, the California Judicial Branch Contract Law (judicial contract law) requires judicial branch entities to follow procurement and contracting policies that are consistent with the California Public Contract Code and substantially similar to the provisions contained in the *State Administrative Manual* and the *State Contracting Manual*. In addition, judicial contract law requires the Judicial Council to adopt and adhere to the *Judicial Branch Contracting Manual* (judicial contracting manual), and to submit semiannual reports to the Legislature and state auditor itemizing most of its contracting activities.

This report concludes that the Judicial Council is generally complying with the judicial contract law and has corrected nearly all of the problems with its procurement and payment practices that we identified in our audit report published in December 2013. In our previous report we found that the Judicial Council did not always competitively bid contracts as required, correctly score vendor bids, or document its reasons for using a non-competitive procurement process. For this audit we reviewed 60 procurements and found that in each instance the Judicial Council followed relevant procurement requirements. We also found that accounting staff correctly followed the Judicial Council's payment process for the 60 payments we reviewed. Judicial Council staff are in the process of correcting one deficiency we found: the judicial contracting manual does not include required standards related to the minimum fuel economy of purchased vehicles.

In contrast to the progress it has made in its procurement policies and practices, the Judicial Council has not fully implemented the controls required to address the pervasive weaknesses we identified in the general controls over its information systems. The two information systems whose general controls we reviewed contain data that the Judicial Council uses for its day-to-day operations, and for creating the semiannual reports. The weaknesses we identified continue to compromise the security and availability of these information systems.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

Our review of procurement practices by the Judicial Council of California (Judicial Council) found that it is generally complying with the requirements of the 2011 California Judicial Branch Contract Law (judicial contract law) and with the provisions of the *Judicial Branch Contracting Manual* (judicial contracting manual).[1] As required by the judicial contract law, the Judicial Council maintains the judicial contracting manual, which outlines procedures for Judicial Council personnel and the personnel of all other entities within the State's judicial branch to follow when procuring goods and services. The results of our audit indicate that the Judicial Council has corrected nearly all of the problems with its procurement and payment practices that we identified in our December 2013 report.[2] These problems included instances in which the Judicial Council incorrectly scored vendors' bids and instances in which it did not document its justification for using a noncompetitive, sole-source procurement process. To evaluate the Judicial Council's compliance with procurement requirements, we reviewed 60 of its procurements that occurred between July 2013 and June 2015. We found no additional instances of the procurement and payment problems that we had previously identified. For example, for the 23 competitively bid procurements that we reviewed, the Judicial Council correctly evaluated each vendor-submitted bid according to the appropriate evaluation methodology outlined in the judicial contracting manual. In addition, we reviewed 37 noncompetitive procurements and found that the Judicial Council obtained approvals and documented their process for ensuring prices were fair and reasonable for each one as required.

State law requires that the policies and procedures in the judicial contracting manual be consistent with the California Public Contract Code and substantially similar to the provisions contained in the *State Administrative Manual* and the *State Contracting Manual*. We found that the judicial contracting manual's policies generally met these requirements with one exception: the judicial contracting manual does not include a reference to fuel economy standards applicable to the judicial branch's vehicle purchases that were recently added to the State Administrative Manual.

Audit Highlights . . .

Our audit of the procurement practices by the Judicial Council of California (Judicial Council) highlighted the following:

- ***The Judicial Council has corrected nearly all the problems with its procurement and payment practices that we identified in December 2013.***
  - ***All 23 competitively bid procurements that we reviewed were appropriately evaluated.***
  - ***All 37 noncompetitive procurements were properly approved and documented.***
- ***The judicial contracting manual was generally consistent with state law, the State Administrative Manual, and the State Contracting Manual.***
- ***The Judicial Council has not resolved prevalent weaknesses in the general controls over its information systems and as a result it continues to compromise the security and availability of its sensitive information.***
- ***In response to our previous recommendation, the Judicial Council is now making its semiannual procurement reports available in a sortable electronic format.***

[1] We use the name Judicial Council in this report to refer collectively to the Judicial Council's policymaking body and to its support staff. The policymaking body approves procurement-related policies, and the support staff conducts the procurement and payment activities.

[2] *Judicial Branch Procurement: Semiannual Reports to the Legislature Are of Limited Usefulness, Information Systems Have Weak Controls, and Certain Improvements in Procurement Practices Are Needed,* Report 2013-302 and 2013-303, December 2013.

Judicial Council staff indicated that they would take steps to resolve this deficiency. Further, we confirmed that the Judicial Council's local contracting manual (local manual) includes information that the judicial contracting manual requires local manuals to address.

In contrast to the progress it has made in its procurement policies and practices, the Judicial Council has still not resolved prevalent weaknesses in the general controls over its information systems. In our December 2013 audit report we identified pervasive deficiencies in our review of selected information system controls over the two systems that provide procurement data contained in the semiannual reports. The weaknesses we identified continue to compromise the security and availability of the judicial branch's information systems, which contain sensitive information such as court case management records and human resources data. In addition, we determined that an unacceptably high risk exists that data the Judicial Council uses for creating the semiannual reports and for its day-to-day operations could lead to an incorrect or inappropriate conclusion. In the nearly two years since the December 2013 report's publication, the Judicial Council has not fully implemented the controls required to address the pervasive weaknesses we identified over its information systems and could not provide a projected date for full implementation.

Finally, the Judicial Council implemented our previous recommendation that it make available its semiannual reports containing information on its procurement activities in an electronic format that allows users to readily sort and filter the data. Beginning in February 2014 the Judicial Council modified its semiannual reports so that users can more easily isolate specific procurement activities of interest to them.

Recommendations

The Judicial Council should update the judicial contracting manual to include the required minimum fuel economy standards for vehicle purchases.

The Judicial Council should develop a corrective action plan by February 29, 2016, to address the recommendation from our December 2013 audit report related to the controls over its information systems. The corrective action plan should include prioritizing the tasks, resources, primary and alternative funding sources, and milestones for all of the actions required to fully implement its framework of information system controls by June 2016. Further, the Judicial Council should continue to provide

guidance and routinely follow up with the superior courts to assist in their efforts to make the necessary improvements to their information system controls.

Agency Comments

Although the Judicial Council agreed to implement both of our recommendations, it stated that it will not implement improvements to controls over its information systems by the June 2016 date that we recommend.

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Introduction

The Role of the Judicial Council Within California's Judicial Branch

California's judicial branch is a separate, independent branch of state government consisting of the Supreme Court; courts of appeal; superior—or trial—courts; and administrative and policy entities, including the Judicial Council of California (Judicial Council). The California Constitution requires the Judicial Council to survey judicial business practices and make recommendations to the courts, the governor, and the Legislature regarding improvements to judicial administration. For example, the Judicial Council cosponsored the Trial Court Facilities Act of 2002, which shifted governance of California's courthouse facilities from the counties to the State. According to the Judicial Council, this act was an important part of broader structural reforms to the judicial branch in California that transformed the trial courts into an integrated, state-operated court system.

The Judicial Council consists of a policymaking body and support staff to that policymaking body. Members of the policymaking body include the chief justice of California and one other Supreme Court justice; three justices of the courts of appeal; 10 superior court judges; four members of the State Bar of California; several nonvoting members, including court executive officers; and a representative from each house of the Legislature. In addition, this policymaking body may appoint an administrative director to perform functions delegated by the policymaking body of the Judicial Council. The administrative director serves as the secretary for the policymaking body and performs administrative and policymaking functions as the law and the Judicial Council policymaking body direct. The Judicial Council policymaking body performs its constitutional and other functions with the support of its staff. In addition to performing various administrative functions, Judicial Council support staff can assist judicial branch entities, such as the state's 58 superior courts, when they procure goods and services.

The California Judicial Branch Contract Law

The California Public Contract Code generally governs how state entities enter into contracts; how state entities acquire goods and services; and how those entities should solicit, evaluate, and award such contracts. In 2011 the State enacted the California Judicial Branch Contract Law (judicial contract law), which is a body of laws that requires judicial branch entities to follow procurement and contracting policies that are consistent with the California Public Contract Code and substantially similar to those found in

the *State Administrative Manual* (SAM) and *State Contracting Manual* (SCM). In addition, the judicial contract law requires, with limited exceptions, that judicial branch entities notify the California State Auditor (state auditor) of all contracts they enter into that exceed $1 million in estimated value. The law further specifies that all administrative and information technology projects exceeding $5 million are subject to the review and recommendations by the California Department of Technology.

The judicial contract law also imposes other reporting requirements. Beginning in 2012 the judicial contract law requires the Judicial Council to submit semiannual reports to the Legislature and state auditor itemizing most of the judicial branch's contracting activities. In addition, the judicial contract law requires the state auditor to commence a biennial assessment of the Judicial Council's implementation of and compliance with the judicial contract law. We present the results of our most recent biennial assessment in this report.

The Judicial Branch Contracting Manual and State Procurement Requirements

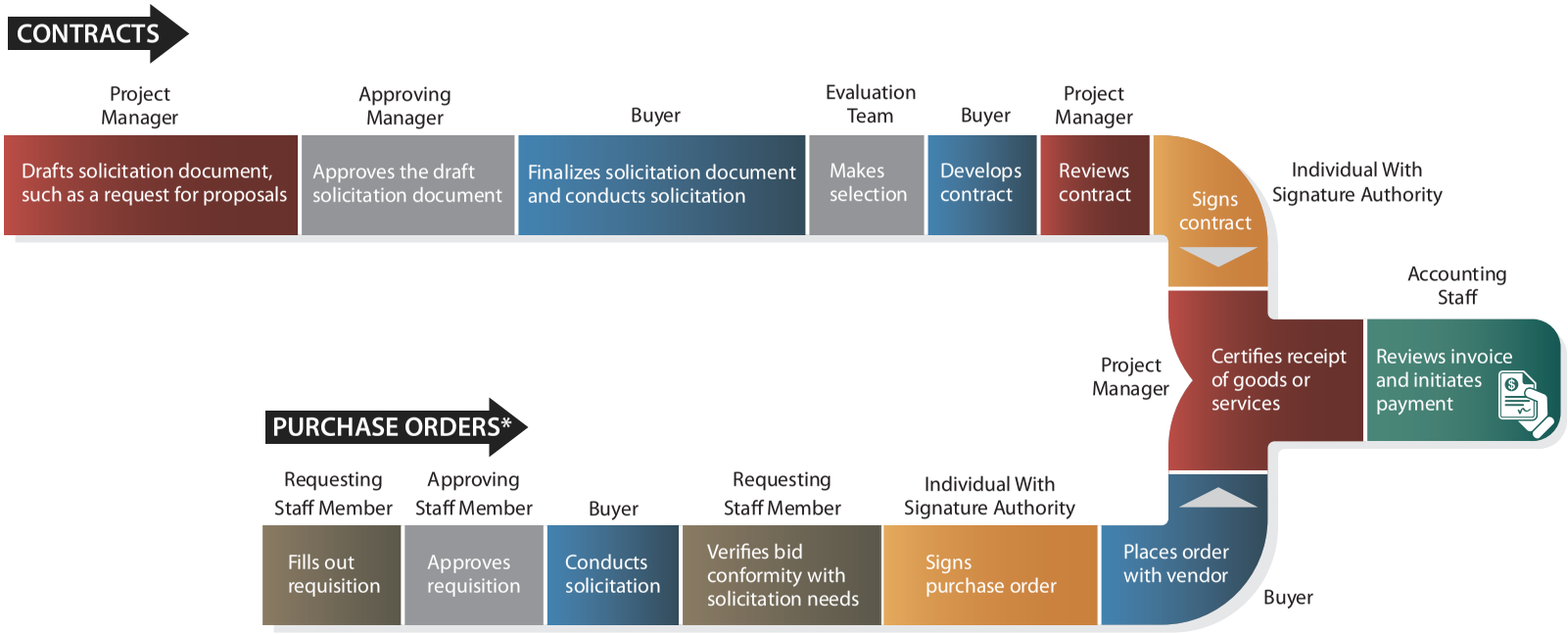
The judicial contract law requires the Judicial Council to adopt and publish a contracting manual for the judicial branch. This law also requires that this manual—the *Judicial Branch Contracting Manual* (judicial contracting manual)—be consistent with the California Public Contract Code and substantially similar to the provisions contained in the SAM and the SCM. The SAM provides general fiscal and business policy guidance to state agencies, while the SCM provides more specific procedures in the areas of procurement and contract management. For example, the SCM and the California Public Contract Code include competitive bidding requirements and certain conflict-of-interest considerations.

In addition to requiring adherence to the judicial contracting manual, the judicial contract law requires that the Judicial Council and each judicial branch entity adopt a local contracting manual (local manual). The judicial contracting manual requires these local manuals to identify individual persons with responsibility and authority for specific procurement and contracting activities. Further, the judicial contracting manual identifies certain items that local manuals should include, such as processes and levels of approval authority that are consistent with applicable law.

In enacting the California Public Contract Code, the Legislature intended to achieve certain objectives, such as ensuring that state agencies comply with competitive bidding statutes; providing all qualified bidders with a fair opportunity to enter the bidding process; and eliminating favoritism, fraud, and corruption in the awarding of public contracts. The California Public Contract Code generally requires state agencies to secure at least three competitive bids or proposals for each contract, and it also describes certain conditions under which a contract may be awarded without obtaining at least three competitive bids or proposals. The SCM provides guidelines for these circumstances. For example, the SCM allows solicitation of bids from a single source for transactions of less than $5,000 when the state agency determines that the pricing is fair and reasonable. The judicial contracting manual similarly exempts procurements of less than $5,000 from competitive bidding requirements. Other circumstances in which the State's procurement rules do not require three competitive bids include situations in which a contract is for legal services, cases in which a contract is for services with a state agency or local governmental entity, and other instances as defined by the California Department of General Services.

In addition, the judicial contracting manual outlines how a judicial entity can procure goods and services using purchase orders, contracts, and contract amendments. According to the judicial contracting manual, purchase orders are agreements that may be used for the purchase of goods, and these agreements are typically for "off the shelf" goods and software or for routine, low-cost, or low-risk services. Figure 1 on the following page outlines the process that the Judicial Council and the judicial branch entities use when they employ competitive bidding to enter into agreements—including purchase orders and contracts—to purchase goods or services from vendors.

Figure 1
The Judicial Branch's Competitive Procurement Process for Contracts and Purchase Orders



Sources: The *Judicial Branch Contracting Manual* (judicial contracting manual), the California State Auditor's observations, and its interviews with staff of the Judicial Council of California.

* Purchase orders are a type of agreement. According to the judicial contracting manual, judicial branch entities often use purchase orders for the purchase of goods and for services that are ancillary to the purchase of the goods. The judicial branch entities also typically use purchase orders for "off the shelf" goods and software or for routine, low-cost, or low-risk services.

Scope and Methodology

We conducted this audit according to the audit requirements contained in the California Public Contract Code, Section 19210, which is part of the judicial contract law. The judicial contract law requires the state auditor to perform biennial audits of the Judicial Council. Table 1 lists the audit objectives we developed and the methods we used to fulfill those objectives.

Table 1
Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Determine whether the *Judicial Branch Contracting Manual* (judicial contracting manual) is consistent with the requirements set forth in the California Judicial Branch Contract Law (judicial contract law).	We evaluated the July 2015 revision of the judicial contracting manual—the latest revision at the time of our review—to determine whether it is consistent with state standards. We focused on significant changes to the California Public Contract Code, the *State Administrative Manual*, and the *State Contracting Manual* that occurred between January 2013 and June 2015 and that apply to the judicial branch.
2	Determine to what extent the Judicial Council of California (Judicial Council) has implemented recommendations from our prior procurement audits.	We reviewed recommendations directed to the Judicial Council in prior audits by the California State Auditor (state auditor) about judicial branch procurements, and we followed up on recommendations that the Judicial Council had not yet fully implemented.
3	Assess the reliability of the Judicial Council data used in the *Semiannual Report on Contracts for the Judicial Branch for the Reporting Period July 1 Through December 31, 2014*, submitted by the Judicial Council to the Joint Legislative Budget Committee and the state auditor.	We followed up on the Judicial Council's progress in addressing issues identified in our December 2013 audit report* related to our review of selected system controls over the Judicial Council's Oracle Financial System and Phoenix Financial System. The Judicial Council uses information from these two systems in compiling the semiannual reports it submits to the Legislature and state auditor. The Oracle Financial System contains procurement and payment data specific to the Judicial Council and other judicial branch entities; whereas the Phoenix Financial System contains procurement and payment information related to the superior courts.
4	Determine whether the Judicial Council's local contracting manual (local manual) conforms to the judicial contracting manual.	We compared the provisions of the Judicial Council's most recent local manual to relevant provisions in the July 2015 judicial contracting manual.
5	Assess the Judicial Council's internal controls over contracting and procurement practices and determine whether the entity complied with those controls and with key contracting and procurement requirements, including those related to competitive bidding and sole-source contracting.	We interviewed staff and reviewed relevant documentation to identify key internal controls. We determined whether the Judicial Council followed these key controls by reviewing 60 procurements the Judicial Council made between July 2013 and June 2015. We examined whether the Judicial Council followed a competitive process for the selected procurements. If it did not, we identified whether it had an approved justification for not doing so.
6	Assess the Judicial Council's internal controls over payment practices and determine whether it complied with those controls.	We interviewed staff and reviewed relevant documentation to identify key internal controls. We assessed whether the Judicial Council followed these key controls by reviewing 60 payments the Judicial Council made between July 2013 and June 2015. During our review, we determined whether the Judicial Council documented that staff had received the goods or services and whether the appropriate staff person approved payments to vendors.
7	Evaluate the Judicial Council's contracts to determine whether the Judicial Council inappropriately split any contracts to avoid necessary approvals or competitive bidding requirements.	We identified the thresholds beyond which the Judicial Council must follow a competitive procurement process and obtain approval from certain levels of management. We then reviewed contract and purchase order data to identify potential split transactions and analyzed those transactions in detail. We did not identify any contracts that had been inappropriately split.

continued on next page . . .

	AUDIT OBJECTIVE	METHOD
8	Review the appropriateness of transactions made with the state credit card or other court-issued cards when those transactions exceeded a total of $100,000 or 10 percent of all reported payments during the period we audited.	According to our review of payments made from July 2013 through June 2015, the Judicial Council did not have credit card payments totaling more than $100,000 or representing more than 10 percent of all payments. We also reviewed purchases the Judicial Council made through American Express business travel and meeting planner accounts but found that these transactions were for general procurements, which we tested in Audit Objective 5.

Sources: California Judicial Branch Contract Law, the state auditor's planning documents, and the state auditor's analysis of information and documentation identified in the column titled *Method*.

* *Judicial Branch Procurement: Semiannual Reports to the Legislature Are of Limited Usefulness, Information Systems Have Weak Controls, and Certain Improvements in Procurement Practices Are Needed*, Report 2013-302 & 2013-303, December 2013.

Assessment of Data Reliability

The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. In performing this audit we assessed the reliability of the Oracle Financial System and Phoenix Financial System data that the Judicial Council used to compile the *Semiannual Report on Contracts for the Judicial Branch for the Reporting Period of July 1 through December 31, 2014*. Further, we obtained electronic data files extracted from the Judicial Council's Oracle Financial System related to procurement and payment data.

To assess the reliability of the Oracle and Phoenix financial systems, we evaluated the Judicial Council's progress in addressing issues identified in our December 2013 audit report related to our review of select information system controls that the Judicial Council and superior courts implemented over their information systems. General controls are the policies and procedures that apply to all or a large segment of the Judicial Council's information systems and help ensure their proper operation. In response to our identification of significant deficiencies in the controls over its information systems, in 2014 the Judicial Council adopted a framework of information system controls structured to align with the National Institute of Standards and Technology's *Special Publication 800-53*. Although the Judicial Council has made some progress in implementing the framework it adopted, pervasive weaknesses remain in the general controls over the Judicial Council's information systems. Further, we reviewed a selection of audit reports the Judicial Council previously published concerning the weaknesses it identified in the information system controls at nine superior courts. We present the details of our review in the Audit Results.

Business process application controls relate directly to specific computerized applications—in this case, the Oracle Financial System and the Phoenix Financial System—and help to ensure that transactions are complete, accurate, valid, confidential, and available. The strength of general controls is a significant factor in determining the effectiveness of business process application controls. Because pervasive weaknesses remain in the general controls that the Judicial Council and superior courts have implemented over their information systems, we did not perform any testing of the Oracle Financial System's or the Phoenix Financial System's business process application controls.

The results of our review indicate that there is an unacceptably high risk that data from the applications the Judicial Council and superior courts currently use to perform their day-to-day operations could lead to an incorrect or improper conclusion. Therefore, we determined that the Oracle Financial System and the Phoenix Financial System data were not sufficiently reliable for the purposes of evaluating procurement activity or reporting procurement activities to the Legislature or to the state auditor. Although our determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations in this report.

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Audit Results

The Judicial Council of California Has Improved Its Procurement and Vendor Payment Practices

The Judicial Council of California (Judicial Council), which conducts policymaking and administrative functions for the State's judicial branch, appears to have improved its procurement and vendor payment practices since our last audit, which we published in December 2013.[3] Unlike our previous audit, this audit found no instances in which the Judicial Council failed to use a competitive procurement process as required, incorrectly evaluated bids it received from vendors, or failed to document its justification for sole-source procurements. In addition, we found that the Judicial Council consistently followed internal controls when processing vendor payments. As Table 2 shows, we recommended in December 2013 that the Judicial Council implement procedures to ensure that it procures goods and services in an appropriate manner. The Judicial Council has implemented or otherwise resolved three of our four recommendations and will soon implement the remaining recommendation. Specifically, Judicial Council staff demonstrated that they have been developing procurement training and indicated that they will begin providing the training before the end of 2015.

Table 2
Status of Recommendations on the Judicial Council of California's Procurement and Payment Activities

RECOMMENDATION	CURRENT STATUS
The Judicial Council of California (Judicial Council) should implement procedures to ensure that it follows a competitive process for its procurements when required.	Resolved
The Judicial Council should implement procedures to ensure it properly documents its noncompetitive procurement process and ensure that it prepares the appropriate documentation when it amends a contract that it has competitively bid.	Fully implemented
The Judicial Council should provide additional training to its staff and the judicial branch entities on how to conduct procurements in compliance with the Judicial Branch Contracting Manual.	Pending
The Judicial Council should implement procedures to ensure that its internal controls over payments are followed and that procurements are approved before ordering and receiving goods and services.	Resolved

Source: California State Auditor's recommendations in report 2013-302 & 2013-303: *Judicial Branch Procurement: Semiannual Reports to the Legislature Are of Limited Usefulness, Information Systems Have Weak Controls, and Certain Improvements in Procurement Practices Are Needed*, and our analysis of the Judicial Council's corrective actions.

[3] *Judicial Branch Procurement: Semiannual Reports to the Legislature are of Limited Usefulness, Information Systems Have Weak Controls, and Certain Improvements in Procurement Practices Are Needed,* Report 2013-302 and 2013-303, December 2013.

The Judicial Council Uses a Competitive Procurement Process When Required

In contrast to our December 2013 audit report, our recent audit gives us assurance that the Judicial Council consistently follows a competitive process for procuring goods and services when it is required to do so. As the Introduction discusses, the *Judicial Branch Contracting Manual* (judicial contracting manual) generally requires the Judicial Council and other judicial branch entities to purchase goods and services through a competitive process, with some exceptions. For example, the judicial contracting manual allows for a noncompetitive procurement process when only one vendor exists that can provide the good or service. Of the 16 procurements we reviewed for our December 2013 audit that required the Judicial Council to use a competitive process, we found one procurement in which the Judicial Council purchased $93,000 in software using a noncompetitive, sole-source process instead of soliciting the contract competitively, as required. For our current audit, we evaluated 60 procurements executed between July 2013 and June 2015, including 23 that required competitive bidding, and we found no further instances in which the Judicial Council did not use the competitive procurement process when it was called for. As a result, we consider this issue to be resolved.

The Judicial Council correctly evaluated the bids for all 23 competitively bid contracts we reviewed.

In addition, the Judicial Council corrected the deficiencies in its bid evaluation process that we identified in the 2013 audit. The judicial contracting manual prescribes processes for evaluating and awarding bids for competitive procurements, which vary depending on the types of goods or services procured and the estimated dollar amounts of the purchases. In 2013 we found that Judicial Council procurement staff improperly evaluated some bids by using the wrong evaluation criteria or by incorrectly scoring the bids. To determine whether Judicial Council staff has since followed appropriate evaluation processes, we reviewed 23 competitively bid contracts awarded from July 2013 through June 2015 and found that the Judicial Council correctly evaluated each vendor-submitted bid according to the evaluation methodology outlined in the judicial contracting manual. For example, we reviewed a contract for third-party administrator services for the Judicial Branch Workers' Compensation Program, a complex set of services worth more than $2 million. Our analysis showed that the Judicial Council appropriately evaluated and scored the contract against criteria—including demonstrated experience, capabilities to perform, and cost reasonableness—named in the request for proposals and that the Judicial Council awarded the contract to the vendor that had the bid with the highest score.

Moreover, our current review found that the Judicial Council improved its execution of the noncompetitive procurement process, as compared to the process used during our previous audit. Although the judicial contracting manual generally encourages competitive procurements, it allows a noncompetitive process for certain categories of purchases, such as a sole-source purchase from a proprietary vendor or an amendment to a competitively bid procurement. Judicial Council staff use a noncompetitive bid form to document the type of allowed noncompetitive purchase, the justification for the purchase, and, in cases where it is required, the sole-source approver's signature, which provides an important level of internal review to ensure that staff has used the noncompetitive procurement process only when appropriate. In our December 2013 audit report, we found that the Judicial Council did not document its justifications for sole-source and other noncompetitive procurements for two of nine such procurements we reviewed. For example, the Judicial Council did not document the justification for its decision to procure database licenses directly from Oracle America Inc. without first conducting a competitive bidding process. We thus recommended that the Judicial Council implement a procedure that ensures that it properly documents the justifications required for noncompetitive procurement processes. In response, the Judicial Council modified its noncompetitive bid form to ensure that procurement staff documents the section of the judicial contracting manual that permits the use of the noncompetitive process.

Since implementing our recommendation to improve its process when making noncompetitive procurements, the Judicial Council has consistently and appropriately used this improved process. For our current audit, we reviewed the files for 37 noncompetitive procurements and found that the Judicial Council generally followed the improved process in each of these cases by documenting the steps it took to ensure that prices were fair and reasonable and, where necessary, by obtaining required approvals. We also found that the Judicial Council handled contract amendments appropriately by following the new guidance regarding amendments that it developed in response to our recommendation.

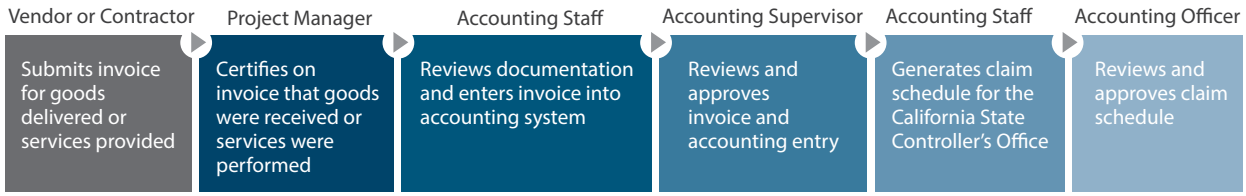
Since implementing our recommendation to improve its process when making noncompetitive procurements, the Judicial Council has consistently and appropriately used this improved process.

As a result of implementing our recommendations and otherwise improving its procurement practices, the Judicial Council has corrected the deficiencies in its practices that we found in 2013. Using these improved procurement practices will allow the Judicial Council to ensure that the prices it pays for goods and services are fair and reasonable.

The Judicial Council Follows Its Payment Process

Accounting staff are correctly following the Judicial Council's payment process, and any error related to vendor payments that we observed in our previous audit did not resurface during our current audit. For this reason, we consider the prior recommendation related to this issue to be resolved. In 2013 we found that a member of the Judicial Council's executive staff made a $500 purchase before completing a purchase order and obtaining approval, contrary to the requirement in the judicial contracting manual. However, after reviewing 60 payments made between July 2013 and June 2015, we found no further instances in which the invoice date preceded the date that appropriate staff approved the associated purchase order. As Figure 2 indicates, the Judicial Council's payment process requires accounting staff to review procurement documentation, including the approved purchase order, before initiating the payment process. When followed correctly, this process prevents unapproved purchases from occurring. For all 60 goods and services purchases that we evaluated in 2015, the Judicial Council consistently followed its process, and appropriate accounting staff approved each purchase order. Finally, we analyzed the Judicial Council's additional controls over the payment process, such as ensuring that the staff person who authorizes payment is different from the staff person who enters the invoice information into the financial accounting system, and we found no exceptions: in each instance, the Judicial Council complied with the control. Consequently, we consider this issue to be resolved.

Figure 2
The Judicial Council of California's Payment Process



Sources: The *Judicial Branch Contracting Manual* and written descriptions provided by a supervising accountant in the Judicial Council of California's accounting services unit.

The Judicial Branch Contracting Manual Is Largely Consistent With the State's Policies, but It Could Benefit From One Important Update

The Judicial Council's judicial contracting manual is generally consistent with state contracting requirements with one exception: it does not include standards related to the minimum fuel economy of purchased vehicles. Specifically, we found that the Judicial Council should update its contracting manual to reflect a

May 2015 revision in the *State Administrative Manual* (SAM) that requires specific fuel economy standards for vehicles purchased by all state entities, including the judicial branch. As discussed in the Introduction, state law requires the Judicial Council to follow contracting requirements that are consistent with the California Public Contract Code and substantially similar to the SAM and the *State Contracting Manual* (SCM). The judicial contracting manual contains many important procurement standards found in the California Public Contract Code, the SAM, and the SCM. For example, the judicial contracting manual generally requires that judicial branch entities conduct competitive procurements in a manner that promotes open, fair, and equal competition among prospective bidders. It also requires the judicial entity employees responsible for procurement activities to be different from the employees responsible for payment approvals, and it requires judicial branch entities to advertise certain types of bid solicitations. Each of these elements helps to promote a fair, transparent procurement process that provides some assurance that the Judicial Council is spending its funds prudently when obtaining needed goods and services.

To be certain that the judicial contracting manual reflects the most current contracting requirements, we identified every revision to the California Public Contract Code, the SAM, and the SCM that occurred between January 2013 and June 2015. Of the 69 total revisions, most did not apply to the judicial branch. In these cases the changes applied specifically to entities other than those in the judicial branch, or they concerned construction projects, which state law allows the judicial contracting manual to omit. In a few cases, a change did apply to the judicial branch but consisted of only a slight wording change to an existing provision of law or policy. In such instances we did not believe it was necessary for the Judicial Council to incorporate these minor changes into the judicial contracting manual.

We identified one change to the SAM that the Judicial Council and other judicial branch entities should incorporate into their procurement practices, and that does not appear in the judicial contracting manual.

However, we identified one change to the SAM that the Judicial Council and other judicial branch entities should incorporate into their procurement practices, and that does not appear in the judicial contracting manual that generally guides these practices. Specifically, the Department of General Services (General Services) revised the SAM in May 2015 to update the minimum fuel economy standards for state vehicle purchases. The minimum fuel economy standards—which state law requires General Services to establish—generally apply to vehicle purchases by all state entities, including the judicial branch. The Legislature enacted this law to achieve its policy objectives of fully evaluating and minimizing the economic and environmental costs of petroleum use by state agencies. The July 2015 update to the judicial contracting manual neither contains nor references these fuel

economy standards. The Judicial Council did not purchase any vehicles between July 2015 (the effective date of the new standards) and September 2015 (the end of our fieldwork); nonetheless, the judicial contracting manual needs to reflect the SAM's updated fuel economy standards to ensure that vehicles purchased in the future meet the standards. A supervising attorney for the Judicial Council confirmed that Judicial Council staff would propose an amendment to the next revision of the judicial contracting manual to address the minimum fuel economy standards. In addition, on December 1, 2015 the Judicial Council sent a memo to all judicial branch entities describing the new minimum fuel economy standards.

The Judicial Council has incorporated into the judicial contracting manual necessary information and updates about the Small Business preference and Disabled Veteran Business programs found in the California Public Contract Code.

Finally, the Judicial Council has incorporated information into the judicial contracting manual that was missing during our prior audit. Specifically, we reported in our December 2013 audit report that the August 2012 version of the judicial contracting manual did not contain necessary information and updates about the Small Business preference and Disabled Veteran Business programs found in the California Public Contract Code. By including this information in the judicial contracting manual, the Judicial Council eliminated the inconsistency with the California Public Contract Code and better ensures that the judicial branch has greater awareness of these requirements and how best to follow them.

The Judicial Council's Local Contracting Manual Contains All Required Information

The Judicial Council's local contracting manual (local manual) includes all of the information that the judicial contracting manual states that it must address. The California Judicial Branch Contract Law (judicial contract law) requires that the Judicial Council adopt a local manual. The judicial contracting manual requires the local manual to include certain information that is specific to the Judicial Council's procurement practices and that does not appear in the judicial contracting manual. For example, the judicial contracting manual requires that local manuals identify the individuals with the responsibility and authority for procurement and contracting activities. The Judicial Council has not updated the original local manual that it created in 2011. However, we determined that the 2011 local manual includes all of the requirements that the latest judicial contracting manual—the version updated in July 2015—states that the local manual must contain. Thus, although it has been more than four years since the Judicial Council created its local manual, we did not find a pressing need for it to update the local manual at this time.

In addition, the Judicial Council corrected a previous inconsistency between its local manual and the judicial contracting manual. As we reported in our December 2013 audit report, the Judicial Council's local manual does not include a discussion of construction activities for non-trial court facilities, such as appellate courthouses. We expected the local manual to include such a discussion because the 2012 version of the judicial contracting manual indicated that the Judicial Council's local manual would incorporate information on design, construction, acquisition, and other activities for non-trial court facilities. However, in January 2014, the Judicial Council eliminated the text from the judicial contracting manual that states that this information will appear in the local manual. We agree that this was an appropriate way to resolve the discrepancy between the two manuals. Maintaining consistency between the local manual and the judicial contracting manual better enables users of these procurement resources to locate and understand information regarding procurement and contracting requirements.

Although Its Procurement Information Is Now Available in a Useful Electronic Format, the Judicial Council Still Needs to Strengthen Controls Over Its Information Systems

The Judicial Council continues to have weak controls over its information systems. In our December 2013 audit report we found that the Judicial Council and superior courts did not have well-developed plans, policies, and procedures related to information systems controls. Consequently, we recommended that the Judicial Council implement improvements to its information system controls and ensure the superior courts improve their general and business process application controls, as described in Table 3 on the following page. Although the Judicial Council adopted a framework of information systems controls in June 2014 and provided this framework to the superior courts, fundamental weaknesses in the Judicial Council and superior courts' information system controls remain. However, the Judicial Council has implemented our recommendation to improve the usefulness of its semiannual reports by providing data in an electronic format that end users can filter or sort according to their needs. Specifically, the report's users can sort or filter entries by vendor name, type of commodity, or value of the procurement, among other attributes.

Although the Judicial Council adopted a framework of information system controls in June 2014 and provided this framework to the superior courts, fundamental weaknesses in the Judicial Council and superior courts' information system controls remain.

Table 3
Status of Recommendations on the Judicial Council of California and Superior Courts' Information System Controls and the Semiannual Reports

RECOMMENDATION	CURRENT STATUS
The Judicial Council of California (Judicial Council) should implement best practices related to general and business application controls as outlined in the U.S. Government Accountability Office's *Federal Information System Controls Audit Manual* and immediately begin implementing improvements to its controls over access to its information systems. It should provide guidance and routinely follow up with the superior courts to ensure that they make the necessary improvements to their general and business process application controls.	Not fully implemented
The Judicial Council should provide the semiannual reports in an electronic format that can be read by common database and spreadsheet software products that allow users to readily sort and filter the data.	Fully implemented

Source: California State Auditor's recommendations in report 2013-302 & 2013-303: *Judicial Branch Procurement: Semiannual Reports to the Legislature Are of Limited Usefulness, Information Systems Have Weak Controls, and Certain Improvements in Procurement Practices Are Needed*, and our analysis of the Judicial Council's corrective actions.

Although the Judicial Council Has Made Some Progress, Weaknesses Persist in the Controls Over Its Information Systems

After nearly two years, the Judicial Council still has not fully implemented the controls required to address the pervasive weaknesses in its information systems, and it could not provide a projected date for full implementation. During our 2013 audit of the Judicial Council and other judicial branch entities, such as the courts of appeal, we found that the Judicial Council and superior courts did not have well-developed plans, policies, and procedures related to information system controls. Further, some of the Judicial Council's plans related to information system controls were nonexistent, and in one case the Judicial Council had not updated a particular plan since 1997. Although the Judicial Council adopted a framework of information system controls in June 2014, fundamental weaknesses in its general controls remain. Further, the Judicial Council continues to identify weaknesses in the information system controls at the superior courts. The results of our review indicate that there is an unacceptably high risk that data from the applications the Judicial Council and superior courts currently use to perform their day-to-day operations could lead to an incorrect or inappropriate conclusion. Therefore, we determined that the Oracle Financial System and the Phoenix Financial System data were not sufficiently reliable for the purposes of reporting procurement activities to the Legislature or to the state auditor. Moreover, the weaknesses identified—which we do not divulge because of their sensitive nature—continue to compromise the security and availability of these information systems, which contain confidential or sensitive information, such as court case management records, human resources data, and financial data.

The Judicial Council uses procurement data from the Oracle Financial System and the Phoenix Financial System to generate the semiannual reports it provides to the Legislature and state auditor. The Judicial Council further uses the Oracle Financial System to issue purchase orders and record certain procurement activity, whereas the superior courts use the Phoenix Financial System to perform these same two functions. In December 2013 we found that the Judicial Council had pervasive weaknesses in the controls over its information systems, and we consequently recommended that it implement all of the best practices related to general and business process application controls outlined in the U.S. Government Accountability Office's *Federal Information System Controls Audit Manual* no later than December 31, 2014. As the Introduction explains, general controls are the policies and procedures that apply to all or a large segment of the Judicial Council's information systems and help ensure their proper operation. In response to our recommendation the Judicial Council adopted a framework of information system controls in 2014 and asserted that it has since been working to implement this framework. However, the Judicial Council identified that fundamental gaps exist in its implementation of this framework in key general control categories. Examples of these categories include security management, which is a reflection of senior management's commitment to addressing security risks and developing security policies; and access controls, which are logical and physical controls that limit or detect inappropriate access to computer resources, such as data, programs, equipment, and facilities.

Although the Judicial Council adopted a framework of information system controls in 2014, it identified fundamental gaps in its implementation of this framework in key categories.

To further address our recommendation from 2013, the Judicial Council, in a February 2015 public meeting, approved the submission of a budget change proposal to the California Department of Finance seeking additional funding for information system control enhancements. Despite this request, the Judicial Council did not receive additional funding for this purpose in the 2015–16 annual budget act. The Judicial Council voted again in August 2015 to approve the submission of a budget change proposal to fund enhancements of its information systems. The Judicial Council's chief administrative officer stated that without additional funding, its implementation of the 2013 audit report recommendations related to general and business process application controls will remain at the same priority level and continue to receive the same level of resources. Further, he stated that without additional funding, he could not determine when the Judicial Council will fully implement the general and business process application controls. Nonetheless, we question whether other available resources could be used for this purpose. The Judicial Council's prolonged implementation of information system controls and the pervasive weaknesses in the existing controls continues to expose the security and availability of its information systems to compromise. These information systems contain confidential or sensitive information such as court case management records, human resources data, and financial data.

We also reviewed information system controls over the Judicial Council's Phoenix Financial System. As previously discussed, the superior courts use the Phoenix Financial System to issue purchase orders and record certain procurement activity. Between December 2013 and June 2015 the Judicial Council published audit reports of nine superior courts—each of which had issues related to information system controls. In response to our December 2013 report recommendation that the Judicial Council provide guidance and routinely follow up with the superior courts to ensure that they make the necessary improvements to their general and business process application controls, the Judicial Council provided its framework of information system controls to superior courts and is developing guidance on how to use the framework. Further, the Judicial Council established an annual process to follow up on outstanding audit issues. According to the Senior Manager of Audit Services, the Judicial Council categorizes outstanding audit issues based on level of risk and exposure to assist the courts in allocating resources and addressing areas of risk, and to identify the areas in which the courts need guidance or may need additional resources. Although the Judicial Council has made some progress in providing guidance to superior courts, it has continued to identify pervasive weaknesses in the superior courts' information system controls—which may expose the security and availability of superior courts' information systems to compromise.

The Judicial Council continues to identify pervasive weaknesses in the superior courts' information system controls—which may expose the security and availability of superior courts' information systems to compromise.

The Judicial Council Now Provides Reports on Its Procurements and Contracts in a Sortable Electronic Format

The Judicial Council implemented our recommendation to provide semiannual reports in an electronic format that allows users to readily sort and filter the data, thus increasing the effectiveness of these reports as an oversight tool. The judicial contract law requires the Judicial Council to provide a report to the Joint Legislative Budget Committee and the California State Auditor twice each year that lists all vendors or contractors receiving payments from any judicial branch entities for the previous six-month reporting period. Our December 2013 audit report recommended that the Judicial Council provide these reports in an electronic format that can be read by common database and spreadsheet software products that allow users to readily sort and filter data. Subsequently, in February 2014, the Judicial Council began posting the semiannual reports in such a format on its website. We downloaded and reviewed these reports and found them to be easily opened, read, sorted, and filtered with commercial spreadsheet software. As a result, users can now readily identify information of interest to them. For example, someone interested in the amount the Judicial Council has recently spent on consulting contracts could tally up the total payments made to all consultants under contract to the Judicial Council during the most recent reporting period. He or she could also track this type of spending over time to determine whether the Judicial Council is increasing or decreasing its reliance on consultants.

Recommendations

The Judicial Council should update its judicial contracting manual to include the required minimum fuel economy standards for the judicial branch's vehicle purchases.

The Judicial Council should develop a corrective action plan by February 29, 2016, to address the recommendation from our December 2013 audit report related to the controls over its information systems. The corrective action plan should include prioritizing the tasks, resources, primary and alternative funding sources, and milestones for all of the actions required to fully implement its framework of information system controls by June 2016. Further, the Judicial Council should continue to provide guidance and routinely follow up with the superior courts to assist with their effort to make the necessary improvements to their information system controls.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

ELAINE M. HOWLE, CPA
State Auditor

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Chief Justice of California
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Administrative Director

November 19, 2015

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

Re: Judicial Branch Procurement—Judicial Council of California, Audit 2015-302

Dear Ms. Howle:

As the Administrative Director for the Judicial Council of California, I received your report on the above referenced audit and the associated cover letter. This is the second audit performed of the procurement practices of the Judicial Council of California as required by the California Public Contract Code section 19210 to assess the implementation of the Judicial Branch Contract Law (Public Contract Code, §§ 19201-19210).

The report contains two recommendations and identifies no new issues concerning procurement documentation, internal controls, and payments. This represents progress from the last audit in 2013. With the continued training on the *Judicial Branch Contracting Manual* that is planned in the next few months and on an on-going basis, we hope to have resolved or fully implemented all recommendations relating to procurement policies and practices from the prior audit.

We note your recognition that the judicial branch has made some progress since the last audit in addressing information security controls. As the information security landscape is continually evolving, so too will information security controls evolve to address the new technology

* California State Auditor's comment appears on page 29.

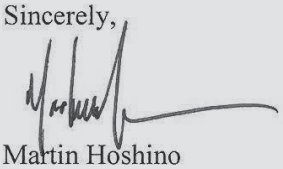
Ms. Elaine M. Howle
November 19, 2015
Page 2

advancements. While the Judicial Council's policy and procedure structure for information security controls is in place, implementation of comprehensive information security controls is an on-going process for achieving and then maintaining substantive compliance.

As your report properly indicates, the judicial branch still needs to continue to enhance and build upon the policies and procedures previously approved and currently being implemented. Information security controls is an area where the public and private sectors are racing to improve – and we are no exception. With limited resources, public sector entities are constrained
1 in the ability to fully address all information security requirements. Years of severe budget cuts exacerbates this situation for the judicial branch so that any redirection of its funding and limited resources within the branch, and especially within the Judicial Council, can have an impact on access to justice. The audit report helps to illuminate this issue and we hope it will aid us in our advocacy for improvements that may require resources. The Judicial Council has an action plan in place to implement all of the policies and procedures and it will be updated by February 29, 2016.

Again, thank you for your team's work on the audit and the opportunity to respond to it on behalf of the Judicial Council. Enclosed is our response to your recommendations.

Sincerely,



Martin Hoshino
Administrative Director

MH/JJ
Enclosure
cc: Jody Patel, Chief of Staff, Judicial Council of California
Curt Soderlund, Chief Administrative Officer, Judicial Council of California
Millicent Tidwell, Chief Operating Officer, Judicial Council of California

Judicial Council Audit Response **November 19, 2015**

Judicial Branch Procurement—Judicial Council of California, Audit 2015-302

Recommendation 1
The Judicial Council should update its judicial contracting manual to include the required minimum fuel economy standard for the judicial branch's vehicle purchases.

Response
In the next revision of the *Judicial Branch Contracting Manual* (JBCM) currently scheduled to be effective July 1, 2016 it is our intention to include in the appropriate section of the JBCM the following paragraph.

> Under Public Resources Code (PRC) 25722.7, fleet vehicle purchases by JBEs must meet minimum fuel economy standards. Under PRC 25722.7(a) and (b), the fleet vehicle purchases must meet the fuel economy standard in Section 3620.1 of the State Administrative Manual (SAM), which sets forth a minimum miles per gallon standard for the combined annual purchases of vehicles by each JBE. Please refer to PRC 25722.7 and SAM 3620.1 for further information.

As discussed with you, this revision and others that may be made are subject to review and approval by the JBCM Working Group, the Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch, and the Judicial Council.

Recommendation 2
The Judicial Council should develop a corrective action plan by February 29, 2016, to address the recommendation from our December 2013 report related to the controls over its information systems. The corrective action plan should include Judicial Council's prioritization of tasks, resources, primary and alternative funding sources, milestones for all of the actions required to fully implement its framework of information systems controls by June 2016. Further, the Judicial Council should continue to provide guidance and routinely follow up with the superior courts to assist with their effort to make the necessary improvements to their information systems controls.

Response
In 2014 the Judicial Council approved an *Information Systems Controls Framework* that was mapped to security policy standards of the National Institute of Standards and Technology (NIST). In 2014 a plan was created to implement this new framework, and work was started on implementation of the supporting policies and procedures. It is important to understand however that several key areas, such as data classification, contingency planning, and the establishment of a formalized information security program may not be fully addressed until funding that has again been requested in a budget change proposal has been obtained. Even if the budget change proposal is approved, the funding would not be received until fiscal year

Judicial Council Audit Response **November 19, 2015**

1 2016–2017 and without receipt of those funds our full implementation of the plan cannot be accelerated from the current plan's estimated completion date of 2018. The June 2016 date contained in the recommendation for full implementation of the framework of information system controls would seem to be unrealistic regardless of whether the requested funding is received.

Similarly, without additional funding for this effort for most if not all of the 58 trial courts, full implementation of an information security plan will not occur in the expected timeframe proposed in the recommendation. Judicial Council staff continue to work with court technology officers on the framework to establish a standard security approach within the judicial branch. As you can appreciate, the branch has trial courts ranging from very small (less than 20 staff) to large and extra large. Court expertise, needs, and resources concerning information security controls range in the same manner. This requires a unique plan for each trial court.

The Judicial Council's corrective action plan will be developed by February 29, 2016 and will address the specific items included in the recommendation. Some of the items will be discussed in general, such as funding sources, as there are other priorities and dependencies that may not be resolved at that time and may require further investigation and analysis.

The Judicial Council's staff has and will continue to provide guidance and routinely follow up with the superior courts to discuss the necessary improvements to their information system controls.

Comment

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE JUDICIAL COUNCIL OF CALIFORNIA

To provide clarity and perspective, we are commenting on the response to our audit report from the Judicial Council of California (Judicial Council). The number below corresponds to the number we placed in the margin of the Judicial Council's response.

We question the lack of urgency with which the Judicial Council is approaching this problem. The Judicial Council has continued to expose its confidential or sensitive information to compromise for nearly two years since we first reported on the pervasive weaknesses in its information system controls and it estimates that, without additional funding, it will not fully implement its framework of information system controls for at least another two years. By recommending that the Judicial Council implement its framework of information system controls by June 2016 we are essentially rejecting the notion that timely completion of these critical activities be contingent on receiving additional funding. Rather, the goal date we established is based on what we would consider to be a reasonable response time to resolve this problem. (1)