



Audit of the
Superior Court of California,
County of Sacramento

DECEMBER 2018



JUDICIAL COUNCIL
OF CALIFORNIA

AUDIT SERVICES

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Superior Court of California, County of Sacramento

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EXECUTIVE SUMMARY

Introduction

Government Code, sections 77206(g) and 77009(h) provide the Judicial Council of California (Judicial Council) with the authority to inspect and review superior court records and to perform audits, reviews, and investigations of superior court operations. The Judicial Council's Office of Audit Services (Audit Services) periodically conducts performance audits of the superior courts in order to verify their compliance with the Judicial Council's policies and with state law. These audits, as well as similar audits of the appellate courts, are primarily focused on assisting the courts identify which of their practices, if any, can be improved upon to better promote sound business practices and to demonstrate accountability for their spending of the public's funds.

State law authorizes the Judicial Council to establish each superior court's annual budget and to adopt rules for court administration, practice, and procedure. Most of the criteria used by Audit Services stems from the policies promulgated by the Judicial Council, such as those contained within the *Trial Court Financial Policies and Procedures Manual* (FIN Manual) and the *Judicial Branch Contracting Manual* (JBCM). These policies establish both mandatory requirements that all superior courts must follow, as well as suggestive guidance. California's courts drastically vary in terms of their caseloads, budget, and staffing levels, thus requiring the Judicial Council to adopt rules that at times provide the courts with flexibility given their varying resources and constraints. State law also requires the superior courts to operate under a decentralized system of management, and the Judicial Council's policies establish the boundaries within which courts exercise their discretion when managing their day-to-day operations.

Audit Services' annual audit plan for the Judicial Branch establishes the scope of each audit and provides a tentative schedule for the courts being audited during the fiscal year. The audit plan explains those scope areas deemed to be of higher risk based on Audit Services' professional judgment and recognizes that other state audit agencies may, at times, perform reviews that may overlap with Audit Services work. In those instances, Audit Services may curtail its planned procedures as noted in the scope and methodology section of this report.

Summary of Audit Results

Our audit found that the Superior Court of California, County of Sacramento (Court) demonstrated compliance with many of the Judicial Council's requirements evaluated during the audit, and should be commended for its receptiveness to certain suggestions for further improvement. Table 1 below presents a summary of the audit's results, including references to any audit findings discussed in the body and a summary of the Court's agreement or disagreement with the noted findings. Other matters such as isolated or minor non-compliance—which in our professional judgement do not rise to the level of a reportable finding—were communicated separately to the Court's management in written form.

Table 1 Audit Results – At A Glance – California Superior Court, County of Sacramento

Areas and Sub-Areas Subject to Review		Tested	Reportable Audit Findings		
			# of Findings	Finding Reference(s)	Court's View
Cash Handling					
1	Daily Opening Process	Yes	✓		
2	Voided Transactions	Yes	✓		
3	Handwritten Receipts	Yes	2	2018-3-01; 02	Partially agrees
4	Mail Payments	Yes	3	2018-4-01; 02; 03	Partially agrees
5	Internet Payments	Yes	✓		
6	Change Fund	Yes	2	2018-6-01; 02	Agrees
7	End-Of-Day Balancing and Closeout	Yes	2	2018-7-01; 02	Agrees
8	Bank Deposits	Yes	✓		
9	Other Internal Controls	Yes	1	2018-9-01	Disagrees
Procurement and Contracts					
10	Procurement Initiation	Yes	✓		
11	Authorization & Authority Levels	Yes	✓		
12	Competitive Procurements	Yes	✓		
13	Non-Competitive Procurements	Yes	✓		
14	Leveraged Purchase Agreements	Yes	✓		
15	Contract Terms	Yes	✓		
16	Other Internal Controls	Yes	✓		
Payment Processing					
17	3-Point Match Process	Yes	✓		
18	Payment Approval & Authority Levels	Yes	1	2018-18-01	Agrees
19	Special Rules - In-Court Service Providers	Yes	✓		
20	Special Rules - Court Interpreters	N/A	-		
21	Other Items of Expense	Yes	✓		
22	Jury Expenses	Yes	✓		
23	Allowable Costs	Yes	✓		
24	Other Internal Controls	Yes	✓		
Fine & Fee Distributions					
25	CMS-Calculated Distributions	N/A	-		
26	Manually-Calculated Distributions	Yes	✓		
1% Fund Balance Cap					
27	Calculation of the 1% Cap	Yes	*		
28	Use of "Held on Behalf" Funds	Yes	✓		
JBSIS Case Filing Data					
29	Validity of JBSIS Data	Yes	1	2018-29-01	Partially agrees
Other Areas					
30	[None]	N/A	-		

Source: Auditor generated table based on testing results and court management's perspective.

Note: Areas subjected to testing are generally based on requirements in the Trial Court Financial Policies and Procedures Manual, the Judicial Branch Contracting Manual, or California Rules of Court, but may also include other Judicial Council policies and directives. Areas not tested are based on audit determinations—such as area not applicable, recently reviewed by others, or no transactions selected to review—which are described more fully in the Audit Scope and Methodology section of the report. Applicable criteria are cited in each audit finding (as referenced above) in the body of our report. The Judicial Council's audit staff determine the scope of each audit based on their professional judgment and the needs of the Judicial Council, while also providing the Court with an opportunity to highlight additional areas for potential review depending on available audit resources.

* On December 5, 2018, the *Advisory Committee on Audits and Financial Accountability for the Judicial Branch* (Audit Committee) decided to postpone the publication of certain audit findings pertaining to the 1% cap on fund balance. This temporary delay will allow the Audit Committee to obtain further clarification from the Trial Court Budget Advisory Committee regarding the Judicial Council's encumbrance policy and acceptable court practices. Upon receiving the requested clarifications—this report will be reissued along with any additional audit findings (if applicable).

The Court demonstrated consistent adherence to several of the different compliance requirements evaluated during the audit, as shown in Table 1. In particular, the Court demonstrated good compliance in the areas of procurement and payment processing. Our review found that the Court generally complied with requirements for procuring goods and services. Specifically, the Court demonstrated sound management practices in the areas of purchase authorization and authority levels, in soliciting non-competitive procurements, and in other internal controls over procurements and contracts. In addition, the Court generally follows FIN Manual requirements for processing invoices and claims for payment, including the ensuring that the 3-point match process is completed before making payment.

However, our audit did identify 12 reportable audit findings where we believe the Court should consider taking corrective action to improve its operations and more fully comply with the Judicial Council's policies. These 12 findings are identified in Table 1 under the column "Reportable Audit Findings" and include reference numbers indicating where the reader can view in further detail the specific findings and the Court's perspective. One particular area of focus for the Court as it considers opportunities for improvement should include strengthening its controls over payments it receives in the mail. Specifically, the Court did not use a payment receipts log to record and track the payments received in the mail and did not restrictively endorse checks or other negotiable instruments received in the mail immediately upon receipt. In addition, it left unprocessed mail payments out in the open and unsecured during the day on shelves or carts. Without a mail payments receipt log, the Court has no record to reference or research should a mail payment become lost or stolen. Furthermore, not immediately endorsing and not securing unprocessed mail payments heightens the risk of theft or loss of these payments. The Court indicated it mostly agreed with our findings and recommendations in this area and has begun some corrective action to strengthen its controls over mail payments.

Summary Perspective of Court Officials

Audit Services initiated its audit of the Court on July 23, 2018, and completed its fieldwork on September 21, 2018. Audit Services shared the draft audit findings with the Court's officials starting on October 3, 2018, and received its final official responses on November 7, 2018. The Court generally agreed with most of the findings and its specific responses are included in the body of the report after each finding.

BACKGROUND ON THE COURT'S OPERATIONS

The Superior Court of California, County of Sacramento (Court) operates three court facilities within the city of Sacramento. The Court operates under the authority and direction of the Presiding Judge, who is responsible for ensuring the effective management and administration of the Court, consistent with any rules, policies, strategic plan, and the funding provided by the Judicial Council.

California's 58 superior courts each have differing workloads, staffing levels, and financial resources. They operate under a decentralized system of governance and are each responsible for their own local court operations and business decisions. The Presiding Judge has the authority to: develop a local budget and allocate the funding provided by the Judicial Council; approve procurements and contracts; and authorize the Court's expenditures. The information in Table 2 is intended to provide the reader with context and perspective on the Court's relative size and workload compared to averages of all 58 superior courts.

Table 2 – Statistical Data for Sacramento Superior Court and Average of all Superior Courts

Statistic	Sacramento Superior Court	Average of All Superior Courts				
		Cluster 1 Courts	Cluster 2 Courts	Cluster 3 Courts	Cluster 4 Courts	All 58 Courts
Financial Highlights (Fiscal Year 2017-18)						
Total Revenue	\$ 92,083,361	\$ 2,203,781	\$ 10,808,168	\$ 41,408,761	\$193,092,791	\$ 43,126,012
Total Expenditures	\$ 93,682,656	\$ 2,238,710	\$ 10,943,396	\$ 41,941,660	\$197,901,911	\$ 44,042,048
Staff Salaries & Benefits	\$ 79,150,507	\$ 1,498,581	\$ 8,227,582	\$ 32,278,737	\$159,856,125	\$ 34,936,503
As a % of Total Expenditures	84.5%	66.9%	75.2%	77.0%	80.8%	79.3%
Judicial Officers and Staff (2017 Court Statistics Report)						
Judges	62	2	8	27	128	29
Commissioners/Referees	11	555	1	4	22	5
Non-Judicial Staff (approx.)	650	17	86	276	1,253	288
Total	723	574	95	307	1,403	322
New Case Filings (Fiscal Year 2016-17)						
Appeal Filings	238	10	77	183	402	131
Civil Filings						
Civil	69,509	290	2,139	8,984	62,412	12,393
Family Law	16,520	270	1,807	6,660	27,413	6,356
Juvenile Delinquency	929	36	252	1,129	2,210	677
Juvenile Dependency	1,261	36	208	619	3,977	830
Mental Health	2,906	17	143	721	2,626	613
Probate	1,951	47	278	991	3,394	845
Small Claims	4,825	51	424	1,954	14,475	2,817
Criminal Filings						
Felonies	11,438	439	1,537	4,676	32,412	6,667
Misdemeanors / Infractions	183,575	4,995	21,148	75,438	342,251	77,665
Total	293,152	6,191	28,013	101,355	491,572	108,994

Source: Financial and case filings data maintained by the Judicial Council. The date ranges differ for the above information due to the different sources of data. The financial data is from the Judicial Council's Phoenix financial system, the judicial officer and staff counts are from the most recent Court Statistics Report, and the case filing counts are from the Judicial Branch Statistical Information System data as of September 13, 2018, and may not agree with other reports as this data is continuously updated. New Case Filings counts for Sutter Superior Court were unavailable as of this date and are not included in the averages above.

Note: The Judicial Council generally groups superior courts into four clusters and uses these clusters, for example, when analyzing workload and allocating funding to courts. According to past Judicial Council documents, the cluster 1 courts are those superior courts with between 1.1 and 4 judicial position equivalents (JPEs), cluster 2 courts are those with between 4.1 and 20 JPEs, cluster 3 courts are those with between 20.1 and 59.9 JPEs, and cluster 4 courts are those with 60 or more JPEs. Sacramento Superior Court is a cluster 4 court.

AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of Sacramento (Court) in order to determine whether it complied with certain key provisions of statute and the policies and procedures adopted by the Judicial Council of California. Our audit was limited to evaluating compliance with those requirements that, in our professional judgment, were necessary to answer the audit's objectives. The period covered by this audit was generally limited to fiscal year 2017-18, but certain compliance areas noted below required that we review earlier periods or current practices. Table 3 lists the specific audit objectives and the methods we used to address them.

Table 3 – Audit Objectives and the Methods Used to Address Them

	Audit Objective	Method
1	Through inquiry, auditor observation, and review of local court policies and procedures, identify areas of high risk to evaluate the Court's compliance.	Audit Services developed an annual audit plan generally identifying areas of high risk at the superior courts. At the Court, we made inquiries and reviewed any local procedures to further understand its unique processes in each compliance area.
2	<p>Determine whether the Court implemented adequate internal controls over its handling of cash receipts and other payments. Such a review will include, at a minimum, the following:</p> <ul style="list-style-type: none"> ▪ Determine whether the Court complied with the mandatory requirements in the FIN manual for internal controls over cash (payment) handling. ▪ Assess the quality of the Court's internal controls to minimize the potential for theft, such as controls over the use of manual receipts and voided transactions. 	We obtained information from the Court regarding the types and average volume of collections at each of its payment collection locations. For selected locations, we observed the Court's practice for safeguarding and accounting for cash and other forms of payments from the public. For example, we reviewed and observed the Court's practice for appropriately segregating incompatible duties, assigning cash drawers to cashiers at the beginning of the day, reviewing and approving void transactions, safeguarding and accounting for handwritten receipts, opening and processing mail payments, controlling access to change funds, overseeing the end-of-day balancing and closeout process, and preparing and accounting for the daily bank deposits.
3	Determine whether the Court demonstrated appropriate control over its non-personal services spending	We reviewed the Court's assignment of purchasing and payment roles to assess whether it appropriately segregated staff roles for approving purchases, procuring the goods or services,

<p>activities. Specifically, our review included the following:</p> <ul style="list-style-type: none"> ▪ Determine whether the Court’s procurement transactions complied with the applicable requirements in the Judicial Branch Contracting Manual or the Trial Court Financial Policies and Procedures Manual. ▪ Determine whether the Court’s payment transactions—including but not limited to vendor payments and claim payments—were reasonable and in compliance with the Trial Court Financial Policies and Procedures Manual and applicable Judicial Council policies and rules. 	<p>receiving the goods, and paying for the goods or services.</p> <p>We also judgmentally selected a sample of 25 procurement transactions and assessed whether each transaction:</p> <ul style="list-style-type: none"> • Was properly authorized and approved by authorized court management. • Adhered to competitive bidding requirements, when applicable. • Had contracts, when applicable, that contained certain terms required to protect the Court’s interests. <p>We selected a sample of 40 expenditure transactions pertaining to various purchase orders, contracts, or in-court services, and determined whether:</p> <ul style="list-style-type: none"> • The Court followed the 3-point match process as described in the FIN Manual to ensure goods and services are received and accepted, and in accordance with contract terms prior to payment. • Appropriate court staff authorized payment based on the Court’s payment controls and authorization matrix. • Whether the payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810. • Whether the payments for in-court service providers adhered to applicable Judicial Council policies. <p>(Note: We did not review court interpreter claims as the Audit Committee suggested we suspend reviewing these types of claims to allow courts time to develop procedures</p>
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		to address previously reported systemic audit findings related to court interpreter service claims.)
4	Determine whether the Court properly calculates fine and fee distributions for certain selected case types.	During the planning phase for the audit, the Court informed us that the State Controller's Office (SCO) recently completed a revenue audit of the Court's fine and fee distributions and found two Court-related errors. Therefore, we limited our review to verifying that the Court took appropriate corrective action to resolve the errors noted by the SCO.
5	Determine whether the Court properly calculates its one percent fund balance cap for the most recent completed fiscal year. Determine whether the Court spent any funds the Judicial Council approved the Court to hold from prior year excess fund balance funds only for the purposes approved by the Judicial Council.	We obtained the Court's final <i>1% Fund Balance Cap Calculation Form</i> for the most recently completed fiscal year at the time of our testing (fiscal year 2016-2017), and performed the following: <ul style="list-style-type: none"> • Verified significant calculations and balance amounts. • Traced and verified significant inputs on the form (such as year-end encumbrances) to supporting records and the Phoenix accounting system. We obtained any Judicial Council-approved request by the Court to hold excess prior year fund balances. To the extent that the Court had and spent any of these held funds, we verified that such spending was limited for the purposes previously approved by the Judicial Council.
6	Determine whether the Court accurately reports case filings data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS).	We obtained an understanding of the Court's process for reporting case filings data to the Judicial Council through JBSIS. For the most recent fiscal year for which the Judicial Council froze and used JBSIS data for funding allocations (fiscal year 2016-2017), we performed the following: <ul style="list-style-type: none"> • Obtained the relevant JBSIS case filings data the Court reported to the Judicial Council and reconciled the case filings counts it reported to its underlying records of cases supporting each reported case

		<p>filing count, by case type, to validate that the Court accurately reported its case filings count data.</p> <ul style="list-style-type: none">• We planned to select 10 cases from six case types, for a total of 60 reported cases, and review the relevant case file records to verify that the Court correctly applied the JBSIS definitions for reporting each case filing. However, because the Court could not provide a detailed list of cases supporting the case filing counts it reported to JBSIS for two case types and could not provide a complete list for two other case types, we selected and reviewed a total of 35 cases from four of the six case types.
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Assessment of Data Reliability

The U.S. Government Accountability Office (GAO) 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 obtained and reviewed financial transaction data from the Phoenix financial system—the statewide accounting system used by the superior courts—for the limited purpose of selecting transactions to test the Court’s compliance with its procurement and related payment activities. Prior to making our selections, we independently queried the Phoenix financial system to isolate distinct types of non-personal service expenditure transactions relevant to our testing—such as by general ledger code—and reconciled the resulting extract with the Court’s total expenditures as noted on its trial balance report for the same period. Our analysis noted no material differences leading us to conclude that use of the Phoenix financial transaction data was sufficiently reliable for the limited purpose of selecting transactions for testing.

Report Distribution

The Judicial Council’s *Advisory Committee on Audits and Financial Accountability for the Judicial Branch* (Audit Committee) reviewed this report on December 5, 2018, and approved it for public release.

California Rules of Court, Rule 10.500 provides for the public access to non-deliberative or non-adjudicative court records. Final audit reports are among the judicial administrative records that are subject to public access unless an exemption from disclosure is applicable. The exemptions under rule 10.500 (f) include records whose disclosure would compromise the security of a judicial branch entity or the safety of judicial branch personnel. As a result, any information

meeting the nondisclosure requirements of rule 10.500(f) have been omitted from this audit report.

Audit Staff

This audit was completed by the following staff under the general supervision of Robert Cabral, Manager:

Dawn Tomita, Audit Supervisor
Jerry Lewis, Senior Auditor (auditor in charge)
Diana Farias, Auditor
Kurtis Nakamura, Auditor

SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION

CASH HANDLING

The Court Generally Followed Required Cash Handling Procedures, But Can Strengthen Its Controls Over Certain Key Processes

Background

Trial courts must collect and process customer payments in a manner that protects the integrity of the court and its employees, and promotes public confidence. Thus, trial courts should institute a system of internal control procedures that assure the safe and secure collection, and accurate accounting of all payments. A court's handling of collections is inherently a high-risk activity given the potential incentives for court employees to act inappropriately when mandatory internal controls per the Trial Court Financial Policies and Procedures Manual (FIN Manual) are compromised or not in operation.

Overall, the Court demonstrated compliance in many of the cash handling areas we evaluated during the audit. Specifically, the Court demonstrated sound management practices in the areas of its daily opening process, void transactions process, and bank deposits process.

Nevertheless, we identified 10 audit findings that we believe require the Court's attention and corrective action. These findings pertained to the following specific areas of cash handling:

Finding Reference	Subject Area
2018-3-01	Handwritten Receipts – Control and Oversight of Books
2018-3-02	Handwritten Receipts – Monitoring and Accounting for Use
2018-4-01	Mail Payments – Immediate Endorsement
2018-4-02	Mail Payments – Mail Opening Process
2018-4-03	Mail Payments – Safeguarding Unprocessed Mail Payments
2018-6-01	Change Fund – Custodians
2018-6-02	Change Fund – Count and Verification
2018-7-01	End-of-Day Balancing and Closeout – Blind Close
2018-7-02	End-of-Day Balancing and Closeout – Verification with Cashier Present
2018-9-01	Other Internal Controls – Separation of Duties

FINDING REFERENCE: 2018-3-01

HANDWRITTEN RECEIPTS – CONTROL AND OVERSIGHT OF BOOKS

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.9 MANUAL RECEIPTS, (4) MANUAL RECEIPT BOOK ACQUISITION AND CONTROL:

- a. Trial courts should acquire manual receipt books centrally at each physical location and a designee should inventory the books when received.

- c. When acquired, the trial court will inspect the books to ensure all receipts are complete and in numerical sequence. The trial court Fiscal Office will log the books in a Manual Receipt Book log that will contain information on each book that includes:
 - i. The book number,
 - ii. The numerical sequence of receipts (from and to receipt numbers) for each book,
 - iii. The date the book was issued to a court facility location supervisor,
 - iv. The name of the court facility and supervisor the book was issued to, and
 - v. The date the book was returned from the court facility location supervisor.

FIN MANUAL, FIN 10.02, 6.3.9 MANUAL RECEIPTS, (5) ISSUANCE OF MANUAL RECEIPT BOOKS BY TRIAL COURT TO COURT FACILITY SUPERVISOR:

- a. When the court facility supervisor receives the manual receipt books, the facility supervisor must record each book on a log for the facility.
- b. The log must include the date received, book number, receipt number sequence (from and to receipt numbers).
- c. The supervisor must ensure the completeness of the manual receipts in the book by verifying that all receipts and receipt numbers are accounted for in the book. The supervisor will initial the log to document the verification.
- d. Once verified, the supervisor must store and secure the receipt books in a locked cabinet or safe.

FIN MANUAL, FIN 10.02, 6.3.9 MANUAL RECEIPTS, (6) ISSUANCE OF MANUAL RECEIPT BOOK BY COURT FACILITY SUPERVISOR OR HIS OR HER DESIGNEE TO CASHIERS:

- a. The supervisor or his or her designee must maintain control and oversight of the manual receipt books. When the cashiering system and/or case management system is not available to process automated receipts, the supervisor or designee will retrieve and issue books of prenumbered receipts to cashiers. Manual receipt books should only be used when the cashiering system and/or case management system is down.

FIN MANUAL, FIN 10.02, 6.3.9 MANUAL RECEIPTS, (11) RETURN OF COMPLETELY USED MANUAL RECEIPT BOOKS TO CENTRAL LOCATION:

- a. Completely used manual receipt books must be returned to the Fiscal Office and logged in by recording the date returned and the facility supervisor or designee returning the books.
- b. The Fiscal Office must verify the completeness of the numerical sequence of the used receipts and initial and date the log.

CONDITION

The Court does not maintain accurate records or exercise complete control of its manual receipt books. Specifically, the Main Courthouse Accounting Office acquires and issues manual receipt books to the Carol Miller Accounting Office, and the Carol Miller Accounting Office then assigns some of these books to the William Ridgeway Accounting Office. Our review of the Carol Miller Accounting Office's manual receipt books log identifies the books it issued to the

William Ridgeway Accounting Office, but the William Ridgeway Accounting Office does not list many of these books on its log and vice-versa. For example, the William Ridgeway Accounting Office listed a manual receipt book as issued to its Probate payment collection location, but the location did not have this book in its possession and location staff did not know why this discrepancy occurred. In addition, although the Main Courthouse Accounting Office issues manual receipt books to its outlying payment collection locations, it does not require them to return their completely used manual receipt books. According to the Main Courthouse Accounting Office staff, they were unaware of this requirement. Nevertheless, the FIN Manual requires fiscal offices that issue manual receipt books to log the date each book was issued, the name of the location and supervisor, and the date the book was returned from the location supervisor. The fiscal offices must also verify the completeness of the manual receipts in returned books and initial and date the log.

Furthermore, the Hall of Justice (HOJ) Civil and the Main Courthouse Criminal Fines & Fees payment collection location supervisors do not maintain control and oversight of their respective locations' manual receipt books. Specifically, at the HOJ Civil location, 10 individuals, including cashiers, have daily uncontrolled access to the safe where the manual receipt book is kept. The HOJ Civil location supervisor indicates not knowing about the need to further control access to the manual receipt book. For the Main Courthouse Criminal Fines & Fees location, the Main Courthouse Accounting Office issues a manual receipt book to each cashier, and each cashier retains control and custody of their assigned receipt books until they are completely used. However, the FIN Manual requires the payment location supervisor to maintain control and oversight of the manual receipt books, including retrieving and issuing books to cashiers only when the CMS is unavailable for payment processing, and retrieving the books at the end of the same day. When courts do not maintain accurate records, control, and oversight of their manual receipt books, they are at increased risk for not being able to fully track and account for the appropriate use of their manual receipts.

RECOMMENDATION

To better track and fully account for all manual receipt books and to ensure the verification of the completeness of all used manual receipts, the Court should:

1. Require its Main Courthouse Accounting Office, that centrally acquires manual receipt books for the Court, to maintain an accurate log of the manual receipt books acquired, issued to, and returned from the various payment collection locations. The Accounting Office should also verify the completeness of the manual receipts in returned books, and initial and date the log.
2. Require its outlying payment collection locations to return their completely used manual receipt books to the Main Courthouse Accounting Office within a reasonable amount of time after the books are completely used,
3. Require each payment collection location supervisor, including the location accounting offices that issue books to cashiers, to maintain an accurate manual receipt book log, and
4. Require each payment collection location supervisor, including the location accounting offices that issue books to cashiers, to maintain control of their location's manual receipt

books by limiting access to the books and requiring cashiers to return books at the end of each day.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

1 & 2: Disagree – The CMJC Accounting Office is responsible for maintaining the log and verifying the completeness of the manual receipt books sent to CMJC, some of which are then sent to FRC. The court will look into submitting a request for approval of an alternative procedure in this area.

3 & 4: Agree – The accounting supervisor will review the manual receipt book handling procedures with the accounting staff. The HOJ supervisor will be reminded to limit access to the manual receipt book. Accounting staff will review the HOJ manual receipt book weekly (on a random schedule) to ensure manual receipts are being properly submitted. To ensure supervisory control, the criminal law staff will check out receipt books from accounting each day. Receipt books currently assigned to civil, probate, family law, small claims, unlawful detainer, and traffic will be recalled and verified. Manual receipt books will be issued on an as-needed basis and accounting will conduct quarterly reviews of issued manual receipt books to ensure receipts are being properly submitted.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 1/22/2019

Responsible Person(s): Kenley Perkins, Accounting Manager; Verlaine McCaslin, Accounting Supervisor; Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-3-02

HANDWRITTEN RECEIPTS – MONITORING AND ACCOUNTING FOR USE

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.9 MANUAL RECEIPTS, (6) ISSUANCE OF MANUAL RECEIPT BOOK BY COURT FACILITY SUPERVISOR OR HIS OR HER DESIGNEE TO CASHIERS:

- b. The supervisor or his or her designee issuing the prenumbered manual receipt books must monitor and maintain an accounting of the receipt books, including:
 - i. The receipt books issued;
 - ii. To whom the receipt book was issued;
 - iii. The date issued;
 - iv. The name of the person returning the book;
 - v. The date the books are returned (should be the end of the same day); and
 - vi. The receipt numbers used within each book.

CONDITION

The Court does not require its accounting office or payment collection location supervisory staff to monitor and maintain an accounting of the manual receipts used by cashiers. Specifically, although the Accounting Offices located at the Main Courthouse, the Carol Miller Justice Center,

and the William Ridgeway Family Relations Courthouse issue manual receipt books to cashiers and maintain manual receipt book logs, they do not monitor or maintain an accounting of the manual receipts used by cashiers as the logs do not include a column to record the receipt numbers used. According to the Accounting Office staff, they were unaware that they needed to monitor and account for the manual receipt numbers used within each book. In addition, the Hall of Justice Civil and the Main Courthouse Criminal Fines & Fees payment collection location supervisors also do not monitor and maintain an accounting of their respective locations' manual receipt books. According to these location supervisors, the Main Accounting Office audits each location's manual receipt books and is responsible for keeping track of the receipt book usage. However, the FIN Manual requires the designated supervisors at each location, which for this Court would be its Accounting Offices for most payment collection locations and location supervisors for other payment collection locations, to not only control and oversee the receipt books, but to also monitor and maintain an accounting of the receipt books. This includes tracking to whom they were issued, when they were issued, the person returning the books, the date returned (which should be the same day as issued), and the receipt numbers used within each book. When courts do not monitor and fully account for their staff's use of manual receipts, they are at increased risk that staff may use manual receipts inappropriately, potentially without clear accountability of who used the manual receipts or when they were used.

RECOMMENDATION

The Court should require its Accounting Offices and payment collection location supervisors to maintain constant control and oversight of its manual receipt books, including keeping detailed logs to monitor and maintain an accounting of the receipts books and receipts numbers used. Specifically, when its Accounting Offices or location supervisors retrieve and issue manual receipt books to cashiers, they should use a log to track to whom the receipt book was issued, when the receipt book was issued, who returned the receipt book, the date returned (should be the same day issued), and what receipt numbers were used.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree – The logs and procedures used to track the manual receipt usage will be reviewed to ensure they document all the necessary information.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 1/22/2019

Responsible Person(s): Kenley Perkins, Accounting Manager; Verlaine McCaslin, Accounting Supervisor; Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-4-01

MAIL PAYMENTS – IMMEDIATE ENDORSEMENT

CRITERIA

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL:

1. Checks and money orders received through the mail should be processed on the day they are received (i.e., endorsed with an immediately restrictive endorsement for deposit in the court

bank account, entered into the court's receipting system, and deposited to the appropriate bank account). Any exceptions are to be brought to the attention of a supervisor, placed under dual control, and processed as soon as practicable. Money received through the mail will be deposited and entered in the court's cashiering system and/or automated case management system on the day received.

CONDITION

All eight of the payment collection locations reviewed do not restrictively endorse checks or other negotiable instruments immediately upon receipt through the mail and/or dropbox. Instead, court staff endorse the checks later after entering the mail payments into the CMS, which may take from several days up to several months. According to the Court, some payments are deposited with the County Treasurer while some are deposited in the bank, so it cannot endorse checks immediately upon mail opening. The Main Courthouse Criminal Records payment collection location indicates using a system printer to endorse the checks when it processes the checks, and both payment collection locations at the Carol Miller Justice Center indicate that clerks must first review the mail documentation before endorsing mail payment checks because some checks may have to be returned. Both payment collection locations at the William Ridgeway Family Relations Courthouse indicate not being aware of the immediate endorsement requirement. Nonetheless, endorsing checks and money orders "for deposit only" immediately upon receipt protects a court's interests by limiting the potential for further negotiation. There is little downside risk to immediately endorsing checks that courts may later return. Moreover, the FIN Manual requires courts to restrictively endorse checks immediately upon receipt. As a result, the Court is potentially at increased risk for unendorsed mail payment checks being lost or stolen and cashed or deposited in a non-court bank account.

RECOMMENDATION

To ensure the safe, secure collection and accurate accounting of all payments received through the mail, the Court should take steps, such as periodic staff training, to ensure that staff restrictively endorse all checks immediately upon receipt.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Partially Agree – The court will review the ability to restrictively endorse checks and money orders as they are received. Several of the court's CMS programs apply the endorsement when the check/money order is processed so a manual endorsement would cause the system endorsement (which includes transaction-specific case information to be unreadable).

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 1/22/2019

Responsible Person(s): Kenley Perkins, Accounting Manager; Verlaine McCaslin, Accounting Supervisor; Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-4-02**MAIL PAYMENTS – MAIL OPENING PROCESS****CRITERIA****FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL:**

2. To provide for the strongest protection of trial court assets and to protect the integrity and reputation of the trial court, the trial court should use a team approach to maintain accountability for payments received through the mail. When processing such payments, the court should adhere to the following procedures:
 - a. One person may open the mail and create the payment receipts log if he or she is being recorded on video and the video is retained for at least six months.
 - b. Mail should only be processed when both team members are present. Alternatively, if two people cannot be present during mail opening, then one person—without opening the envelopes—should start the payment receipts log by sequentially numbering the envelopes and documenting the envelope number and the sender’s name in the payment receipts log. When the second person opens the mail, he or she should complete the payment receipts log for each envelope identified by the first person. A field should be added to the payment receipts log to indicate when an envelope does not contain a payment; not all fields listed in Paragraph 3(b) below will be completed.
 - c. Two-person team combinations should be rotated regularly.
 - d. To maintain separation of duties, team members who open and log mail payments should not also enter the mail payments in the court’s cashiering system and/or automated case management system, if possible.
3. To provide for the strongest oversight and monitoring of payments received through the mail, courts should maintain a payments receipt log. Without a payments receipt log, courts have no record to reference or research if a mail payment is lost or stolen. The following method should be used for processing payments received through the mail:
 - a. The payments receipts log sheet should include the following information:
 - i. Case or docket number;
 - ii. Name of the person making the payment;
 - iii. Amount of cash, check, or money order;
 - iv. Check or money order number;
 - v. Date received in the mail; and
 - vi. Name of the person opening the mail and the person recording the payment on the payments receipt log.

FIN MANUAL, FIN 1.01, 6.4 TRIAL COURT OPERATING STANDARDS:

4. A presiding judge or his/her designee who wants to establish an alternative procedure will submit a signed and dated Request for Alternative Procedure (RAP) Form (copy provided in 7.0, Associated Documents) to:

Judicial Council of California

Director of Branch Accounting and Procurement

Attn.: Trial Court Alternative Financial Policies and Procedures

2850 Gateway Oaks Drive, Suite 300
Sacramento, CA 95833-4348
E-mail: TCFin@jud.ca.gov

A written response to the submission of alternative procedures will be returned to the submitting court within 60 business days of receipt of the document. When a Request for Alternative Procedure has been received by Judicial Council of California Staff, an acknowledgement of receipt will be returned to the submitting court. The 60 business-day response time will begin once the court receives that acknowledgement of receipt. Absent a response from Judicial Council of California Staff within 60 business-days, the alternative procedure will be in effect, subject to further review and consideration by Judicial Council of California Staff. Undocumented procedures or those not approved by Judicial Council of California Staff will not be considered valid for audit purposes.

Once approved, alternative procedures must be documented by the trial court, incorporated into the local trial court manual, and distributed to court personnel. Any alternative procedure that is different from what is included in the *Trial Court Financial Policies and Procedures Manual* or the county's policy document must first be approved by Judicial Council of California Staff.

CONDITION

Three of the eight payment collection locations reviewed—Main Courthouse Civil, Carol Miller Traffic, and William Ridgeway Family Law—do not follow a two-person “team approach” when opening payments received through the mail, nor do they consistently adhere to the suggested alternative procedure of opening mail while being recorded on video, or in an open area visible to others, to mitigate the risk of lost or stolen mail payments. Specifically, the individuals who open the mail at these locations do so individually and out of the presence of others or video surveillance. According to the Main Courthouse Civil payment collection location, all available civil clerks help open the daily mail in their individual working stations due to the large volume of daily mail and lack of work space. Further, the William Ridgeway Family Law payment collection location supervisor stated that due to its limited number of available staff, the mail is not opened by a two-person team. However, when courts do not use two-person teams to open mail nor implement other mitigating procedures such as those suggested in the FIN Manual, they are at heightened risk for lost or stolen mail payments. Payments received by mail is an area of high-risk since the payer is neither present during the transaction nor is guaranteed to receive a receipt, and the FIN Manual's guidance is intended to mitigate the risk of lost or stolen payments.

In addition, at all eight of the payment collection locations reviewed, staff did not use a payment receipts log to record and track the payments received in the mail, dropboxes, or from other court locations. According to the Court, it does not use mail payment receipts logs because it has limited staff resources to perform this task for the large volume of daily mail it receives. Some court locations track the number of mail items they assign each clerk to process within a given day; however, this tracking is not on a mail payment receipts log, begins after the mail has been opened, and does not include the steps and capture the information suggested by the FIN Manual for processing the payments received through the mail. In addition, the William Ridgeway Family Law payment collection location indicates the percentage of mail with payments is low,

while the Probate location believes a mail payment receipts log is not necessary because it promptly processes its mail payments, while some location supervisors indicated not being aware of the FIN Manual suggested mail payment receipts log. However, the FIN manual indicates that courts should maintain a mail payments receipt log because without a mail payment receipts log, courts do not have a record to reference or research should a mail payment become lost or stolen. As a result, the Court is without clear accountability of its mail payments and is potentially at increased risk for lost or stolen mail and dropbox payments.

RECOMMENDATION

To ensure the safe, secure collection, and accurate accounting of all payments received through the mail, the Court should consider doing the following:

1. Monitor to ensure its payment collection locations either consistently follow a two-person team approach where both individuals are present when opening mail payments, or implement alternative procedures, such as those suggested in the FIN Manual, to mitigate the risk of lost or stolen mail payments. If the Court cannot implement a two-person team approach or the alternative procedures suggested in the FIN Manual, it should prepare and submit to the Judicial Council a request for approval of an alternate procedure for opening and accounting for the payments it receives in the mail.
2. Implement specific local cash handling policies and procedures, as well as periodic training and monitoring, to ensure that staff complete a Payment Receipts Log with all the key information necessary to establish a clear record of all the payments, cash and non-cash, received through the mail. The Court should then use this payment receipts log to reconcile and verify that staff entered all the mail payments into its CMS system.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The court agrees that a two-person team is the best approach and will continue to strive to get that in place, consistently, throughout the court. As an alternative the court will look into the use of mitigating controls for mail opening such as: opening mail in a viewable, open area; use of adding machine tape tallies of payments; opening in full view of cameras; and other possible solutions. Local procedures/policies for each specific area of the court will be drafted along with a version of the recommended Payment Receipt Log. If the court is unable to meet the FIN manual suggested procedures, the court may submit a request for approval of an alternative procedure.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: Spring 2019

Responsible Person(s): Rick Beard, CFO & Court Principal Auditor

FINDING REFERENCE: 2018-4-03

MAIL PAYMENTS – SAFEGUARDING UNPROCESSED MAIL PAYMENTS

CRITERIA

FIN MANUAL, FIN 10.02, 6.1.1 USE OF SAFES AND VAULTS, (1):

The preferred method for securing Cash Change Funds, unprocessed payments, or other valuable documents when not in use is to house them in a safe or vault. During the day, collections shall be secured in a lockable cash drawer or bag.

FIN MANUAL, FIN 10.02, 6.4 PAYMENTS RECEIVED THROUGH THE MAIL, (3):

To provide for the strongest oversight and monitoring of payments received through the mail, courts should maintain a payments receipt log. Without a payments receipt log, courts have no record to reference or research if a mail payment is lost or stolen. The following method should be used for processing payments received through the mail:

- f. Any payment that cannot be processed will be attached to the Payments Receipt Log sheet and appropriately safeguarded in the safe until the payment can be processed the next business day.

CONDITION

At four of the eight payment collection locations observed, the Court locations did not secure the unprocessed mail payments in a safe overnight. Specifically, for two of the four payment collection locations—Main Courthouse Civil and Hall of Justice Civil—unprocessed mail payments are left in the open during the day and unlocked overnight on shelves or carts until a designated supervisor assigns them to clerks to process when time permits. According to the Main Courthouse Civil location, further safeguards during the day are unnecessary since staff are trustworthy, and it leaves the mail spread out and separated by case types overnight because this makes it easier to distribute the mail to staff for processing the next day. The Hall of Justice Civil location indicated it has always left unprocessed mail payments on shelves and was unaware of the FIN Manual requirement to secure and safeguard the unprocessed mail payments. For the other two payment collection locations—Main Courthouse Criminal Records and Criminal Fines & Fees—the locations secure their unprocessed mail payments overnight in locked desk drawers but keep the keys to the desk drawers in either an unlocked drawer or in a box on top of the same desk. The Court Fiscal Officer indicates that the keys and drawers with the payments are in an area that is not accessible to the public. However, the FIN Manual requires courts to store and safeguard these unprocessed mail payments in the safe until the payments can be processed the next business day. When the Court does not take precautions to secure unprocessed payments in a safe overnight, it heightens the risk of theft or loss of these payments.

RECOMMENDATION

The Court should require all its employees who handle payments, including mail and drop-box payments, to secure and safeguard any unprocessed payments in a safe overnight.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The court agrees and will work with the various court locations to ensure that unprocessed mail and drop-box payments are secured each evening. An informal policy detailing the process will be developed.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 12/2018

Responsible Person(s): Kenley Perkins, Accounting Manager, Verlaine McCaslin, Accounting Supervisor, Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-6-01

CHANGE FUND – CUSTODIANS

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.1 CASH CHANGE FUND, (5):

A person who is responsible for the Cash Change Fund to make change may perform other collection-related review or oversight duties but should not be a cashier.

FIN MANUAL, FIN 10.02, 6.3.1 CASH CHANGE FUND, (6):

The court executive officer or his or her designee must appoint a custodian for each Cash Change Fund that is \$500 or more at any separately managed trial court location. The custodian is responsible for the safekeeping, replacement, disbursement, and accounting for the assigned Cash Change Fund. A copy of this policy must be given to the custodian to ensure that he or she understands the requirements for the Cash Change Fund.

- a. The designated Cash Change Fund custodian should have no other cash handling responsibilities, as noted in Subsection 6.3.1(5).
- b. The Cash Change Fund custodian must keep detailed records to document:
 - i. The establishment and replenishment of the Cash Change Fund.
 - ii. The amount and denomination of currency and coin held in the Cash Change Fund.
 - iii. All exchange transactions.
- c. When custody of the Cash Change Fund is transferred to another custodian:
 - i. A personal audit of the fund must be made by the trial court employees directly concerned; and
 - ii. A Cash Change Fund Change of Custodian form (provided in 7.0, Associated Documents) must be completed for the approval of the court executive officer or his or her designee.

CONDITION

Although the Court designated a custodian for each of its change funds of \$500 or more, in practice the Court allows multiple staff with access to its safes to also access and make change from the change funds. Specifically, multiple staff from its three Accounting Offices have access to the safes and the three change funds that are more than \$1,200 each. According to the Court, it follows this practice to allow Accounting Office staff to cover situations such as when one of them is unavailable to make change due to illness, vacation, or a meeting. Moreover, at two payment collection locations—the Hall of Justice Civil location and the William Ridgeway location—the assigned custodians are located in another building physically separate from their assigned change funds. For example, at the Hall of Justice Civil payment collection location, everyone who has access to its safe—10 staff, including cashiers and some who no longer work at the location—also has access to the \$500 change fund that is kept in a drawer stored in the

safe. This happens because the Court-designated cash change fund custodian is physically located in a separate building at the Main Courthouse Accounting Office. However, the FIN Manual requires the CEO to appoint a sole custodian for each change fund that is \$500 or more, and to provide the custodian with a copy of the FIN Manual policy to ensure the custodian understands the requirements applicable to change funds. Custodians are responsible for the safekeeping, disbursement, and accounting of their assigned cash change funds of \$500 or more. When courts allow multiple staff to access and make change from their change funds, they increase the risk that a change fund shortage could occur without clear accountability of when the shortage occurred or who may have caused the shortage.

RECOMMENDATION

To ensure that the cash in each change fund remains reasonably secure and fully accounted for, the Court should appoint a single custodian, who is not also a cashier, for each of its cash change funds of \$500 or more and provide each assigned custodian with a copy of the FIN Manual policy to ensure they understand the requirements applicable to change funds. If the Court determines that it cannot feasibly appoint a single custodian for each of its change funds, it should prepare and submit to the Judicial Council a request for approval of an alternate procedure to increase the number of custodians assigned to each of its cash change funds.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree – The court will review the change fund policies to ensure as few staff as possible have access to the change funds. Existing policies require the change funds to be counted multiple times a day and the change funds are not counted by the same person on consecutive counts. For FRC and HOJ where the custodian is not on site, the custodian will conduct randomly timed reviews of the change funds to ensure accountability. The court will look into submitting a request for approval of an alternative procedure in this area.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 1/22/2019

Responsible Person(s): Kenley Perkins, Accounting Manager; Verlaine McCaslin, Accounting Supervisor; Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-6-02

CHANGE FUND – COUNT AND VERIFICATION

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.1 CASH CHANGE FUND:

- (7) At the end of each business day, individuals responsible for making change from the Cash Change Fund must— in the presence of a Court Manager, Supervisor, or designee—count, verify, and reconcile the Change Fund monies to the day's beginning balance, and initial and date the verification/reconciliation.

CONDITION

The Court does not require its change fund custodians or the Accounting Office staff who make change from the change funds to count, verify, and reconcile their respective change funds while in the presence of another manager or supervisor at the end of each day. Instead, the Accounting Office staff count and verify the change funds multiple times per day entirely on their own without oversight or any other staff present. The Hall of Justice (HOJ) Civil payment location has a very limited number of staff, and the \$500 change fund at that location gets counted by the supervisor, currently the highest-level person at HOJ Civil. According to the Main Courthouse Accounting Office supervisor, the change funds are not verified in the presence of another person because the office does not have enough staff to assign two people to count and verify the change fund at the end of each day. Instead, staff count the change funds multiple times per day, and the count is never done by the same person who performed the last count. Nonetheless, the FIN Manual requires individuals responsible for the change fund to count, verify, and reconcile the change fund in the presence of a manager or supervisor at the end of the day, and initial and date the verification/reconciliation. Because many people have access to the safes in which the change funds are kept, and the Court allows multiple staff to access and make change from the change funds, it is at increased risk that change fund monies could go missing without clear accountability as to who was responsible for the shortage.

RECOMMENDATION

To reduce the risk of unaccountable change fund shortages, the Court should create local cash handling policies and procedures that align with the FIN Manual requirement to count, verify, and reconcile the change fund monies to the day's beginning balance at the end of each business day. In addition, the Court should ensure that this daily count and verification is performed while in the presence of a court manager, supervisor, or designee.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree – The court will explore submitting a request for an alternative procedure to meet the requirement. The accounting supervisor and accounting manager are not available to count the change fund at the end of the day. Under the current policy, the cash fund is counted at the end of the day by accounting staff, and counted the following morning by a different staff person; ensuring appropriate separation of duties.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 1/22/2019

Responsible Person(s): Kenley Perkins, Accounting Manager; Verlaine McCaslin, Accounting Supervisor; Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-7-01

END-OF-DAY BALANCING AND CLOSEOUT – BLIND CLOSE

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.10 DAILY BALANCING AND CLOSEOUT:

1. At the end of each workday, each cashier must balance the payments collected in his or her individual cash drawer/bag with the payments and collections recorded in the cashiering system and/or automated case management system. Cashiers may not leave the premises or transact new business until the daily balancing and closeout processes are complete.
2. The balancing and closeout process includes the following steps:
 - a. The cashier completes and signs the recap of daily collections report; attaches a calculator tape for checks; and submits the report, collections, and beginning cash to the supervisor or designee for verification;
 - b. The supervisor or his or her designee verifies in the presence of the cashier that the beginning cash is fully accounted for and the submitted collections balance with the recap of daily collections report;
 - c. The supervisor or designee then verifies that the submitted collections balance with the associated payments and collections reported on the cashier's case management system daily collections closeout report;
 - d. If the collections balance with the amounts in the case management system, the cashier and supervisor or designee must both sign and date the case management system daily collections closeout report.

CONDITION

At five of the eight payment collection locations reviewed, cashiers do not complete their end-of-day collections recap report before comparing their daily collections to the CMS reported collection amounts, also known as a "blind close." Instead, cashiers query the CMS to see how much the CMS indicates they collected before they count and record their end-of-day collections on the recap report. Some cashiers follow this practice because some of the Court's systems do not provide for a blind close process and allow cashiers to query their daily collection amounts. The Carol Miller Small Claims & Unlawful Detainers location indicated that it no longer performs a blind close because it handles little cash and rarely encounters discrepancies. However, the FIN Manual requires cashiers to complete and sign their recap of daily collections report, then submit the report and collections to the designated supervisor for verification. The supervisor then verifies with the cashier present that the collections balance with the recap report, and then verifies that the collections balance with the CMS daily collections closeout report. As a result, its current practice allows a cashier to know in advance when an overage occurs and risks the cashier potentially taking the overage amount before completing the recap report. The designated supervisor would not detect the missing overage amount when verifying the end-of-day collections to the recap and CMS reports because all amounts would still balance.

RECOMMENDATION

To better safeguard its funds and ensure clear accountability for cashier shortages and overages, the Court should consider requiring all its cashiers to perform a "blind close" whenever possible. Specifically, the Court should require its cashiers to complete their recap report of the collections in their individual cash drawer/bag at the end of each workday without knowledge of the CMS collection amounts, a "blind close," before submitting their recap report and collections to a designated supervisor for verification of their collections to the recap report, and then verification of the recap report to the CMS collections closeout report.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree – The Court will review the cashier closing processes to determine where blind balancing procedures can be implemented. A system change request has already been submitted that would allow for blind balancing within the new C-Track case management program.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 1/22/2019

Responsible Person(s): Kenley Perkins, Accounting Manager; Verlaine McCaslin, Accounting Supervisor; Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-7-02

END-OF-DAY BALANCING AND CLOSEOUT – VERIFICATION WITH CASHIER PRESENT

CRITERIA

FIN MANUAL, FIN 10.02, 6.3.10 DAILY BALANCING AND CLOSEOUT:

2. The balancing and closeout process includes the following steps:
 - b. The supervisor or his or her designee verifies in the presence of the cashier that the beginning cash is fully accounted for and the submitted collections balance with the recap of daily collections report

CONDITION

At two of the eight payment collection locations reviewed—the Carol Miller Small Claims & Unlawful Detainers location and the William Ridgeway Probate location—the designated supervisors do not verify with the cashier present the collections and cash bag funds submitted by cashiers at the end of the day during the closeout process. According to the Carol Miller Small Claims & Unlawful Detainers payment collection location, due to it being severely understaffed, the clerks are not present during the closeout process since they have to continue their other closing activities while leads verify the end-of-day collections and cash bags. The William Ridgeway Probate payment collection location indicated it was not aware of the requirement. However, the FIN Manual requires designated supervisors to verify with the cashier present that the cash bag amounts are fully accounted for and that the collections balance with the cashier's recap of daily collections and the CMS daily collections closeout report. As a result, these locations potentially allow a shortage to occur without clear accountability of who may have caused the shortage as it would be potentially very difficult to resolve any discrepancy that might arise between the cashier's and supervisor's independent counts of the collections and cash bags.

RECOMMENDATION

To better safeguard its funds and ensure clear accountability for beginning cash funds and cashier collections, the Court should require that the cashier be present when their designated supervisor both verifies the cashier's end-of-day collections with their recap of daily collections and verifies that the cashier's cash bag agrees with the beginning cash amount.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree, court fiscal staff will work with operations supervisory staff to explain the need for cashier staff to be present when the daily count is being made, which is for the benefit of both parties and provides the necessary validation on the transfer of the daily collections. Fiscal staff will look into developing language to include in any of the existing various operational areas collection processes.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: 1/2019

Responsible Person(s): Rick Beard, CFO, Kenley Perkins, Accounting Manager, Verlaine McCaslin, Accounting Supervisor, and Sandy Mizuki, Accounting Supervisor

FINDING REFERENCE: 2018-9-01*OTHER INTERNAL CONTROLS – SEPARATION OF DUTIES***CRITERIA**

FIN MANUAL, FIN 1.03, 6.3.3 CONTROL ACTIVITIES:

6. Appropriate Segregation of Duties

- a. An organization plan should be established that provides for an appropriate segregation of duties; this will help safeguard trial court assets. Segregation of duties is based on the concept that no one individual controls all phases of an activity or transaction.
- b. Work must be assigned to court employees in such fashion that no one person is in a position to initiate and conceal errors and/or irregularities in the normal course of his or her duties.

CONDITION

At seven of the eight payment collection locations reviewed, the Court allows cashiers who collect and enter payments from customers at counter windows to also process and enter mail payments in the CMS during slow or down periods. According to court staff, they were unaware that cashiers who collect payments at a counter window should not concurrently process and enter mail payments. The supervisors at some locations, such as at the Carol Miller Traffic payment collection location, indicate that this practice rarely occurs, while the manager at the William Ridgeway Probate payment collection location attributes the necessity for overlapping assignments to its limited staff. However, when courts allow cashiers to concurrently process and enter both window and mail payments, especially when they do not maintain a record, such as a mail payments receipt log, of the payments received in the mail, they are at increased risk of cashiers potentially committing "lapping" or "skimming" fraud.

RECOMMENDATION

To ensure the safe and complete processing of mail payments, the Court should periodically monitor to ensure that the same employees do not both accept and enter into the CMS over-the-counter payment transactions and process and enter into the CMS payments received by mail. Alternatively, the Court could maintain and use a mail payments receipt log to verify and reconcile that staff completely entered all the logged mail payments into its CMS.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The court disagrees that the process of the same staff performing duties at the counter and at some other day/time performing similar duties in the “back room” opening mail and processing payments presents a potential fraud problem. The court does recognize that front counter staff should not also open or process mail payments at the front counter. The court will look to mitigate this practice as suggested by Judicial Council audit staff. Court staff essentially perform the same process whether at the counter or processing mail. A payment is received and entered into the court’s case management system. Court staff working the counter assist random customers as they appear at the window, while staff processing mail handle mail distributed randomly. With limited resources to utilize, the court strives to maximize staff’s time, thus during slow times at the counter staff can assist with “back room” mail processing.

Response provided on 10/29/2018 by: Rick Beard

Date of Corrective Action: March/April 2019

Responsible Person(s): Rick Beard, CFO and Kenley Perkins, Accounting Manager in coordination with Operational Managers that oversee front counter staff

PROCUREMENT AND CONTRACTS

The Court Complied with Applicable Requirements for Procuring Goods and Services

Background

Trial courts are expected to procure goods and services in a manner that promotes competition and ensures best value. To achieve this expectation, the Judicial Branch Contracting Manual (JBCM) and the Trial Court Financial Policies and Procedures Manual provide uniform guidelines for trial courts to use in procuring necessary goods and services and in documenting their procurement practices. Trial courts must demonstrate that their procurement of goods and services are conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice. Typically, a purchase requisition is used to initiate all procurement actions and to document approval of the procurement by an authorized individual. The requestor identifies the goods or services, verifies that budgeted funds are available for the purchase, completes the requisition form, and forwards it to the court manager authorized to approve purchase requests. The court manager is responsible for verifying the necessity and appropriateness of the requested items, that the correct account codes are specified and assuring that funds are available before approving and forwarding the requisition form to the staff responsible for procuring goods and services. Depending on the type, cost, and frequency of the goods or services to be procured, court staff responsible for procuring goods and services may need to perform varying degrees of procurement research to generate an appropriate level of competition and obtain the best value. Court procurement staff may need to also prepare and enter the agreed-upon terms and conditions into purchase orders, service agreements, or contracts to document the terms and conditions of the procurement transaction, and maintain a procurement file that fully documents the procurement transaction.

Our review found that, except for one minor instance of non-compliance that we communicated separately to the Court, it complied with the applicable requirements for procuring goods and services. Specifically, the Court demonstrated compliance in various areas we evaluated during our audit, including demonstrating sound management practices in the areas of authorization and authority levels, in soliciting non-competitive procurements, and in other internal controls over procurements and contracts.

PAYMENT PROCESSING

The Court Complied with Applicable Payment Processing Requirements, But Can Better Communicate Who Is Authorized to Approve Payments

Background

Trial courts must institute procedures and internal controls to ensure they pay for appropriate goods and services in an economical and responsible manner, ensuring that they receive acceptable goods and services prior to payment. Thus, the FIN Manual provides courts with various policies on payment processing and provides uniform guidelines for processing vendor invoices and in-court service provider claims. All invoices and claims received from trial court vendors, suppliers, consultants and other contractors are routed to the trial court accounts payable department for processing. The accounts payable staff must process the invoices in a timely fashion and in accordance with the terms and conditions of the respective agreements. Staff must match all invoices to the proper supporting procurement and receipt documentation, and must ensure approval for payment is authorized by court management acting within the scope of their authority.

The Court demonstrated compliance in most of the payment processing areas we evaluated during our audit. The Court demonstrated sound management practices in the areas of its three-point match process, special items of expense, and allowable costs.

Nevertheless, we identified one audit finding in the payment processing area that we believe requires the Court's corrective action. This finding pertains to the following specific area of payment processing:

Finding Reference	Subject
2018-18-01	Payment Approval and Authority Levels – Approval Matrix

FINDING REFERENCE: 2018-18-01

PAYMENT APPROVAL AND AUTHORITY LEVELS – APPROVAL MATRIX

CRITERIA

FIN MANUAL, FIN 8.01, 6.2.3 PAYMENT AUTHORIZATION:

1. The trial court shall establish and maintain an authorization matrix that lists employees who are permitted to commit court resources and approve invoices for payment.
2. The authorization matrix shall list the dollar limits and scope of authority of each authorized employee. For example, only certain court officials will be allowed to approve transactions such as the acquisition of fixed assets, hiring of consultants, etc. The authorization matrix should indicate such conditions.
3. The authorization matrix shall be updated on an annual basis or as required by changes in personnel.

4. Copies of the authorization matrix shall be provided to the trial court accounts payable department and to the accounts payable department of the outside accounting service provider.

FIN MANUAL, FIN 8.01, 6.4 PAYMENT APPROVAL, (2):

Designated court officials shall act within the scope of their authority when approving invoices for payment. If the dollar amount or nature of a purchase exceeds an individual's authority, the next level of authority shall be consulted and appropriate approval secured before releasing the invoice for payment.

CONDITION

For 23 of the 40 payment transactions reviewed, court accounts payable staff processed the invoices for payment even though the Court did not list the staff approving the invoices for payment on its payment authorization matrix. Specifically, although the Court asserts that appropriate department staff approved these invoices for payment, it did not list these approving staff on its payment authorization matrix. This happened because instead of establishing an authorization matrix that lists all individuals authorized to approve payments and their respective dollar limits and scope of authority, the Court uses a payment authorization matrix that lists vendor names and specifies certain staff as authorized to approve the invoices for certain listed vendors. However, this authorization matrix is incomplete as it does not list many vendors who received payments, and therefore, does not specify the staff authorized to approve their respective invoices. In addition, the authorization matrix also does not identify the payment approval dollar limits that apply for each authorized staff. Instead, the matrix was created by an accounts payable analyst for personal use and simply lists common vendors and the staff authorized to approve each of the listed vendors' invoices. However, the FIN Manual requires courts to establish and maintain an authorization matrix that lists employees who are permitted to commit court resources and approve invoices for payment, including the dollar limits and scope of authority of each authorized employee. Allowing accounts payable staff to process payments approved by staff that the Court did not officially authorize to approve payments puts the Court at risk of unknowingly spending funds inappropriately.

RECOMMENDATION

To ensure that accounts payable staff process invoices for payment only when approved by authorized court officials acting within the scope of their authority, the Court should establish and document an official payment authorization matrix that clearly indicates (a) the name of official/staff authorized to approve payments, and (b) the dollar limits and scope of authority of each official. The Court should provide a copy of its official authorization matrix to its accounts payable staff so that they can verify, before processing invoices for payment, that the individuals approving invoices for payment are acting within the dollar limits and scope of their authority.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree; the court will develop an "official" authorization approval matrix to use along with its' existing approval authorization document approved by the Presiding Judge.

Response provided on 10/29/2018 by: Rick Beard, CFO

Date of Corrective Action: Spring 2019

Responsible Person(s): Kenley Perkins, Accounting Manager and Rick Beard, CFO

FINE AND FEE DISTRIBUTIONS

The Court Corrected the Calculation and Distribution Issues Reported by the State Controller's Office in its Recently Completed Revenue Audit of the Court

Background

Trial courts must accurately calculate and distribute the monies they collect so that State and local funds receive the amounts State law designates for each. State statutes and local ordinances govern the distribution of the fines, penalties, fees, and other assessments that courts collect. In addition, courts rely on the State Controller's Office *Trial Court Revenue Distribution Guidelines* and the Judicial Council *Uniform Bail and Penalty Schedules* to calculate and distribute these court collections to the appropriate State and local funds. Courts may use either an automated system, manual process, or a combination of both to perform the often-complex calculations and distributions required by law.

During the initial audit planning process, the Court informed us that the State Controller's Office (SCO) recently completed a revenue audit of the Court in January 2016. Our review of the SCO audit report noted that the SCO found that the Court excluded a portion of county Traffic Violator School fees from the maintenance of effort formula pursuant to Government Code 77205. In addition, the SCO reported that the county did not distribute the 20% State surcharge applicable to the base fines on Health and Safety Code violations because the Court's distribution system was not updated to assess this surcharge for these violations. Therefore, we limited our review of the Court's fine and fee distributions to its inclusion of the proper proportion of county TVS fees in the county's maintenance of effort calculations and its application of the 20% State surcharge on Health and Safety Code violations. Our review found that the Court took appropriate corrective actions to resolve these two issues reported by the SCO.

ONE PERCENT FUND BALANCE CAP

Background

State law allows trial courts to retain unexpended fund balance reserves in an amount that does not exceed one percent of its prior fiscal year operating budget. To assist in ensuring compliance with this requirement, the Judicial Council requires courts to prepare and submit a final *1% Fund Balance Cap Calculation Form* (calculation form) approximately six months after the end of the fiscal year, which calculates the amount of fund balance that a court may carry over into the next fiscal year. Courts self-report the inputs on the calculation form, such as year-end expenditures, expenditure accruals, and encumbrances.

In addition, should a court need to retain funds that exceed its one percent fund balance cap, the Judicial Council adopted a process whereby courts that meet certain specified guidelines may request approval from the Judicial Council to hold excess funds “on behalf of the court.” The request specifies how the funds will be used and requires the court to explain why such spending could not occur through its annual operating budget. If the Judicial Council approves the court’s request, the Judicial Council may impose additional terms and conditions that courts must accept, including separately tracking the expenditures associated with these funds held on behalf of the court. As a part of the Judicial Council-approved process for approving funds held on behalf of a court, Audit Service is charged with reviewing funds held on behalf of the courts as a part of its normal court audit cycle to confirm that the courts used the funds for their approved stated purpose.

There are no issues to report at this time pending the Audit Committee obtaining clarification on certain issues from the Trial Court Budget Advisory Committee.

JBSIS CASE FILING DATA

The Court Could Not Fully Support the Case Filing Counts It Reported to JBSIS For Some Case Types

Background

The Judicial Branch Statistical Information System (JBSIS) is a reporting system that defines and electronically collects summary information from court case management systems for each major case processing area of the court. JBSIS directly supports the technology goals of the Judicial Council's strategic plan, providing information for judicial branch policy and budgetary decisions, management reports for court administrators, and the Judicial Council's legislative mandate to report on the business of the courts. Authorization for JBSIS is found in California Rules of Court, rule 10.400: "Consistent with article VI, section 6 of the California Constitution and Government Code section 68505, JBSIS is established by the Judicial Council to provide accurate, consistent, and timely information for the judicial branch, the Legislature, and other state agencies that require information from the courts to fulfill their mandates. Each trial court must collect and report to the Judicial Council information according to its capability and level of automation as prescribed by the JBSIS Manual adopted by the Judicial Council..." The Court Executives Advisory Committee is responsible for oversight of this program.

Our review found that the Court maintained some documentation to support the total JBSIS monthly case filings count data it submitted to the Judicial Council's Office of Court Research. Nevertheless, our review identified one JBSIS-related audit finding that we believe requires the Court's corrective action. The finding pertained to the following specific area of JBSIS case filings data:

Finding Reference	Subject
2018-29-01	Validity of JBSIS Data – Case Filings Counts

FINDING REFERENCE: 2018-29-01

VALIDITY OF JBSIS DATA – CASE FILINGS COUNTS

CRITERIA

CALIFORNIA RULES OF COURT, RULE 10.400, JUDICIAL BRANCH STATISTICAL INFORMATION SYSTEM:

Consistent with article VI, section 6 of the California Constitution and Government Code section 68505, the Judicial Branch Statistical Information System (JBSIS) is established by the Judicial Council to provide accurate, consistent, and timely information for the judicial branch, the Legislature, and other state agencies that require information from the courts to fulfill their mandates. Each trial court must collect and report to the Judicial Council information according to its capability and level of automation as prescribed by the *JBSIS Manual* adopted by the Judicial Council.

CONDITION

Although the Court reported to JBSIS a total count of more than 282,000 new case filings in fiscal year 2016-17, it could not fully support the filing counts it reported for some case types. The Court reported to JBSIS new case filings for fiscal year 2016-17 using both a manual entry process through the JBSIS web portal (for most case types) and electronic CMS reporting to JBSIS for two case types (felony and small claims). The Court reported each new case filing as a count in one of 42 possible case categories (such as “civil limited” or “felony”). Over a 12-month period, this corresponds to 504 individual monthly JBSIS counts (42 counts per month x 12 months). Audit Services compared the Court’s reported JBSIS count data against its compilation of counts from its CMS systems to identify any differences in the totals. Our review noted count differences in 77 of the 504 individual monthly counts (or approximately 15 percent of the time). The differences varied across each of the 77 monthly counts, with the Court’s compilation of its CMS data at times being higher or lower than the corresponding count totals in JBSIS. The sum of all over and under-counted case filings in absolute terms and without regard to case weights was 1,771 cases, or less than one percent of the more than 282,000 new case filing counts the Court reported. Of the 1,771 case filing count differences, 1,545 were due to the Court manually counting some Felony (7c) cases as new filings after its initial reports to JBSIS and amending its reports to include those additional cases. According to the Court, many other count differences occurred either because case information changed from when it initially reported the case filing count data or due to certain clerical errors. The Court submitted amended JBSIS case filings data for fiscal year 2016-17 in May 2018, or nearly a year after the end of fiscal year 2016-17, to correct the filing counts for these and other case types. The Court submitted this amended filings data after February 2018 when the Judicial Council froze the fiscal year 2016-17 JBSIS case filings data used in the next Workload-based Allocation and Funding Methodology (WAFM) budget calculations.

However, although the Court compiled summary documents of the total new case filing counts it reported to JBSIS for all case types and all months of fiscal year 2016-17, we could not complete our audit procedures because the Court could not provide detailed lists of specific cases to support some of the monthly case filing counts it reported to JBSIS. Having this detail is necessary in order to select and review case files and evaluate whether the Court consistently followed the JBSIS Manual case type definitions. Specifically, we requested from the Court detailed listings of the case numbers supporting the monthly case filing counts it reported for the six case types and five random months we selected for review in fiscal year 2016-17. However, the Court could not provide such detailed listings for two of the six case types, Felony (7c) and Mental Health (10a), representing approximately 9,336 and 2,962 counts, respectively, of the more than 282,000 new case filing counts the Court reported in fiscal year 2016-17. Further, the Court also could not provide such a detailed list for all five months we selected to review for two other case types, Family Law-Child Support (6a) and Juvenile Dependency (9a), representing another 16,562 and 1,258 counts, respectively, of the new case filing counts the Court reported to JBSIS in fiscal year 2016-17. According to the Court, its felony CMS system could not generate a detailed list of case numbers that support its case filing counts. In addition, the Court manually tallied the count of some new mental health (10a) case filings without retaining complete records of the associated case numbers underlying its tallies because, according to the Court, the Judicial Council does not specifically require courts to retain detailed listings of case numbers to support the monthly JBSIS case filings data they report. According to the Court, compiling such detailed

listings after the fact or going forward would be burdensome on its limited court staff. However, without detailed lists of case numbers supporting its case filing counts, not only could we not fully verify the accuracy of its reported monthly case filing counts, we also could not select pertinent case numbers to review the associated case file records and assess and verify the accuracy and quality of the data the Court reported to JBSIS in fiscal year 2016-17. Consequently, the Court did not compile and maintain listings of case numbers to support its felony and mental health case filing counts and did not consistently compile and maintain similar monthly listings for its family law and juvenile dependency case filing counts. Without maintaining such detailed listings of case numbers to support the case filing counts it reported to JBSIS, the Court cannot demonstrate the validity or accuracy of some of the case filings count data it submitted to JBSIS.

Audit Services raises these JBSIS reporting discrepancies as an audit finding since the Judicial Council has yet to establish data quality standards that (1) define an acceptable error rate for reporting and (2) define what steps each court is expected to take to reasonably support and ensure accurate and complete reporting. Until such standards exist, courts should continue to focus on monitoring and further improving their JBSIS reporting practices to ensure case filing counts are fully supported by their records.

RECOMMENDATION

To ensure it is doing all it reasonably can to ensure accurate and complete JBSIS reporting, the Court should do the following:

- Seek guidance from the Judicial Council on acceptable error rates when reporting JBSIS case filing counts, so that it can determine when its reports are sufficiently flawed and require an amended report.
- Generate and retain from its CMS systems, or require staff to compile and retain, detailed listings of the case numbers that support its case filing counts that are both contemporaneous and consistent with its monthly JBSIS reporting.
- Periodically review listings of case numbers for its reported case filings, such as monthly or quarterly, to identify individual cases that may have been double-counted in the same reporting period or across previous reporting periods or that may have changed case-types.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

Agree with the first recommendation bullet: The Sacramento Superior Court will contact the Judicial Council, Office of Court Research, to seek guidance on acceptable error rates in JBSIS case filing counts; concerning the second recommendation bullet: The Sacramento Superior Court has CMS programming limitations that precludes staff from obtaining detailed listings of cases by case type. A requirement for staff to compile and retain detailed case numbers by case type would be overburdensome particularly since the staff are not aware of the categorization of the case filings in JBSIS. Furthermore, case numbers are not a requirement of the current JBSIS definitions and therefore this shouldn't be a JBSIS requirement or a finding by the Judicial

Council; and, Disagree with the third recommendation bullet: The Sacramento Superior Court disagrees with this finding. If the court does not have the ability to extrapolate the case number information from the case management system, then there is no way to require staff to periodically review monthly or quarterly, that information

Response provided on 10/28/2018 by: Kim Pederson, Business Analyst/Public Information Officer

Date of Corrective Action: Spring 2019

Responsible Person(s): Kim Pederson, Business Analyst/Public Information Officer

AUDIT SERVICES' COMMENTS ON COURT'S VIEW

To provide clarity and perspective, we are commenting on the Court's response. We understand the Court has difficulties with some of its case management systems for certain case types. However, for those case types where its CMS can report case numbers, the Court should retain those reports to support the case filing counts it reports to JBSIS and use those reports to periodically identify cases that may have been double-counted or misreported. Regardless of whether the JBSIS Manual explicitly requires courts to retain support for the data they report, courts have an inherent responsibility to retain verifiable documentation to account for and support the new case filing counts they report to JBSIS and that the Judicial Council uses in making important court funding decisions. Without making an effort to retain such verifiable supporting documentation, the Court cannot ensure nor demonstrate that it is doing all it can to report JBSIS data that is accurate and reliable.

OTHER AREAS

Background

We did not identify any other significant areas during the initial audit planning process that, based on our professional judgement, warranted any additional audit work. Therefore, we did not review compliance with any other areas.
