



Audit of the Superior Court of California, County of Monterey

REPORT OF INTERNAL AUDIT
SERVICES

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ADMINISTRATIVE OFFICE
OF THE COURTS

FINANCE DIVISION
INTERNAL AUDIT SERVICES

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Superior Court of California, County of Monterey

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MANAGEMENT SUMMARY

Introduction

The Trial Court Funding Act of 1997 eliminated the requirement for county audits of the courts effective January 1, 1998. Since that time, the Superior Courts of California have undergone significant changes to their operations. These changes have also impacted their internal control structures, yet no independent reviews of their operations were generally conducted until the Administrative Office of the Courts (AOC), Internal Audit Services (IAS), began court audits in 2002.

IAS initiated the audit of the Superior Court of California, County of Monterey (Court) in September 2012. Depending on the size of the court, the audit process typically involves three or four audit cycles encompassing the following primary areas:

- Court administration
- Cash controls
- Court revenue and expenditure
- General operations

IAS audits cover all four of the above areas. The audit process involves the review of the Court's compliance with California statute, California Rules of Court (CRC), the *Trial Court Financial Policies and Procedures Manual* (FIN Manual), and other relevant policies. IAS also followed up on issues identified in the prior audit to determine whether the Court adequately resolved previous issues. The prior audit engagement took place in fiscal year 2006 – 2007 and the resulting audit report was provided to the Court in May 2008. In addition to the above four primary areas, the prior audit also assessed the Court's fiscal readiness for implementing the Phoenix Financial System.

Compliance with the Financial Integrity and State Manager's Accountability Act (FISMA) is also an integral part of the audit process. The primary focus of a FISMA review is to evaluate the Court's internal control structure and processes. While IAS does not believe that FISMA applies to the judicial branch, IAS understands that it represents good public policy and conducts internal audits incorporating the following FISMA concepts relating to internal control:

- A plan of organization that provides segregation of duties appropriate for proper safeguarding of assets;
- A plan that limits access to assets to authorized personnel;
- A system of authorization, record keeping, and monitoring that adequately provides effective internal control;
- An established system of practices to be followed in the performance of duties and functions; and
- Personnel of a quality commensurate with their responsibilities.

IAS believes that this audit provides the Court with a review that also accomplishes what FISMA requires.

IAS audits are designed to identify internal control deficiencies and non-compliance with the FIN Manual, FISMA, and other requirements. A summary of the findings are provided in the **Audit Issues Overview** below. Although IAS audits do not emphasize or elaborate on areas of compliance, we did identify examples in which the Court was in compliance with the FIN Manual and FISMA. Specifically, except for those issues reported in this report, some of the areas where IAS found the Court in compliance included the following:

- Court management has provided staff with a set of documented policies and procedures to be followed in performing duties and functions in various operational areas such as cash handling, exhibit handling, procurement, and payment approval.
- The Court has established a system of reviews and authorizations to provide management oversight of court operations and staff, and control over the use of court funds.
- It also has an organizational structure in place that appropriately segregates duties in various operational areas such as cash handling, fiscal management, procurement, and payment processing to ensure that no one individual is responsible for all phases of an activity.
- The Court has instituted an electronic system that utilizes radio frequency identification (RFID) tags and readers to efficiently and effectively track and monitor court assets and exhibits.

To enable the Court to continue to improve and strengthen its system of internal controls, it is important that the Court note those areas of noncompliance reported below and in the body of this report. The Court should actively monitor the issues reported in this audit, and any issues identified by its own internal staff that may perform periodic reviews of Court operations and practices, to ensure it implements prompt, appropriate, and effective corrective action.

Audit Issues Overview

This internal audit identified areas of noncompliance that were consolidated into the reportable issues included in this report, as well as other areas of noncompliance that IAS did not consider significant enough to include in the report, but were nonetheless communicated to court management. IAS provided the Court with opportunities to respond to all the issues identified in this report and included these responses in the report to provide the Court's perspective. IAS did not perform additional work to verify the implementation of the corrective measures asserted by the Court in its responses.

Although the audit identified other reportable issues, the following issues are highlighted for Court management's attention. Specifically, the Court needs to improve and refine certain procedures and practices to ensure compliance with statewide policies and procedures and/or best practices. These issues are summarized below:

The Court Did Not Properly Distribute Certain Collections (6.1)

State statutes and local ordinances govern the distribution of the fees, fines, penalties, and other assessments that courts collect. The Court relies on its automated case management system (CMS) to distribute its collections to the appropriate government accounts. Our review of the Court's distribution for a sample of infraction cases selected for review identified various calculation and distribution errors. Specifically, the Court did not apply the GC 68090.8 – 2%

deposit for automation to certain assessments in Proof of Insurance and Fish & Game violations. It also inappropriately charged a VC 40508.6(a) – administrative assessment for a traffic school case. Furthermore, we identified various distribution errors in traffic school cases and Red Light violations. We did not review any misdemeanor or felony cases since the Court informed us that the County is responsible for collecting and distributing these cases. The Court agreed with our findings and indicated it has or will request the CMS vendor or AOC to update its CMS.

Trust Fund Reconciliations are Incomplete and Not Current (4.1)

The Court is not current on its trust account reconciliations to ensure that the general ledger and bank balances are supported by CMS records. Trial courts receive and hold trust funds in a fiduciary capacity on behalf of others, including bail, litigation deposits, jury fee deposits, and payments on judgments, and are responsible for properly managing, monitoring, and safeguarding these funds. Proper management of trust funds includes periodic reconciliations to ensure that actual deposits are supported by an official, detailed record of these deposits maintained in the CMS. However, the Court informed us that since it began depositing trust funds in a new bank account in December 2010, it has had difficulty in reconciling both the existing and new accounts to trust records in the CMS. The Court hired a temporary employee to assist in trust reconciliations who has made some progress, but reconciliations were only partially completed and not current during the time of our review. The Court agreed with our findings, and plans to continue its efforts to bring its trust reconciliations up-to-date and consolidate its trust funds into one account.

Employee Allowances may be used for Questionable or Non-Reimbursable Expenses (1.1)

The Court provides monthly allowances to executive and management employees to pay for expenses that are questionable or prohibited by the FIN Manual for a court to pay or reimburse. Although these allowances are intended to pay for reimbursable business expenses, they may also pay for purchases to provide employees with incentives, recognition, awards, and appreciation events that in some cases may be questionable uses of public funds. Specifically, the Court permits the use of allowances to support holiday and other social functions for employees, which are primarily characterized as celebrations or parties and are therefore inappropriate uses of public funds because they are social in nature and provide a personal benefit to attendees rather than serve a business purpose of the court. Additionally, executive employees also receive annual professional allowances that may be used for professional memberships. However, the FIN Manual prohibits reimbursement of professional association dues for all judges, subordinate judicial officers, and those trial court employees who are not represented by a recognized employee organization and who earn more than \$100,000 per year, except when the license is a requirement of the position. The Court agreed with our findings and will work with legal counsel to update these policies.

STATISTICS

The Court has 18 judges (one unfunded per Assembly Bill (AB) 159) and 2.2 subordinate judicial officers who handled 94,865 case filings in fiscal year 2010–2011 at six court locations. Further, the Court employed 190.2 full-time equivalent staff to fulfill its administrative and operational activities, and incurred total trial court expenditures of approximately \$22.9 million for the fiscal year that ended June 30, 2012.

Before 1997, courts and their respective counties worked within common budgetary and cost parameters—often the boundaries of services and programs offered by each blurred. The courts operated much like other county departments and, thus, may not have comprehensively or actively sought to segregate or identify the cost and service elements attributable to court operations and programs. With the mandated separation of the court system from county government, each entity had to reexamine their respective relationships relative to program delivery and services rendered, resulting in the evolution of specific cost identification and contractual agreements for the delivery of county services necessary to operate each court.

During fiscal year 2011–2012, the Court received various services from the County of Monterey (County). For instance, the Court and County entered into a Memorandum of Understanding (MOU) to, among other things, provide access and network services to the County’s criminal justice mainframe application. The Court also entered into separate MOUs with the County for court security services and enhanced collections services. Additionally, the Court partially compensates the County for operating a shuttle service to transport jurors and employees from offsite parking to the courthouse.

The charts that follow contain general Court statistical information.

County Population (Estimated as of January 1, 2012)	420,668
Source: California Department of Finance	
Number of Court Locations	6*
Number of Courtrooms	22
Source: Superior Court of California, County of Monterey	
* On September 20, 2013, the Court is planning to close the King City Courthouse temporarily until funding is restored.	
Number of Case Filings in fiscal year 2010–2011:	
Criminal Filings:	
▪ Felonies	2,967
▪ Non-Traffic Misdemeanor	6,625
▪ Non-Traffic Infractions	1,480
▪ Traffic Misdemeanors	7,896
▪ Traffic Infractions	62,049
Civil Filings:	
▪ Civil Unlimited	1,731
▪ Limited Civil	4,797

<ul style="list-style-type: none"> ▪ Small Claims <p>Family Law and Juvenile Filings:</p> <ul style="list-style-type: none"> ▪ Family Law ▪ Juvenile Delinquency ▪ Juvenile Dependency <p>Probate, Mental Health, Appeals, and Habeas Corpus Filings:</p> <ul style="list-style-type: none"> ▪ Probate ▪ Mental Health ▪ Appeals ▪ Habeas Corpus 	<p>997</p> <p>3,973</p> <p>1,330</p> <p>94</p> <p>388</p> <p>74</p> <p>53</p> <p>411</p>
<i>Source: Judicial Council of California's 2012 Court Statistics Report</i>	
Judicial Officers as of June 30, 2011:	
Authorized Judgeships	20.0 (1 unfunded per AB 159)
Authorized Subordinate Judicial Officers (SJO)	2.2
<i>Source: Judicial Council of California's 2012 Court Statistics Report</i>	
Court Staff (including SJO):	
Total Authorized FTE Positions	194.2
Total Filled FTE Positions	190.2
<i>Source: FY 2012–2013 Schedule 7A</i>	
Average Monthly Collections	1.56 million
<i>Source: Superior Court of California, County of Monterey</i>	

FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has identified accountability as the paramount objective of financial reporting. The GASB has further identified two essential components of accountability, fiscal and operational. **Fiscal accountability** is defined as:

The responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public moneys in the short term (usually one budgetary cycle or one year).

The *Strategic Plan for California's Judicial Branch 2006-2012* entitled *Justice in Focus* established, consistent with the mission statement of the Judicial Council, a guiding principle that states that "Accountability is a duty of public service" and the principle has a specific statement that "The Judicial Council continually monitors and evaluates the use of public funds." As the plan states, "All public institutions, including the judicial branch, are increasingly challenged to evaluate and be accountable for their performance, and to ensure that public funds are used responsibly and effectively." For the courts, this means developing meaningful and useful measures of performance, collecting and analyzing data on those measures, reporting the results to the public on a regular basis, and implementing changes to maximize efficiency and effectiveness. Goal II of the plan is independence and accountability with an overall policy stated as:

Exercise the constitutional and statutory authority of the judiciary to plan for and manage its funding, personnel, resources, and records and to practice independent rule making.

Two of the detailed policies are:

1. Establish fiscal and operational accountability standards for the judicial branch to ensure the achievement of and adherence to these standards throughout the branch; and
2. Establish improved branch wide instruments for reporting to the public and other branches of government on the judicial branch's use of public resources.

Under the independence and accountability goal of *The Operational Plan for California's Judicial Branch, 2008 – 2011*, objective 4 is to "Measure and regularly report branch performance – including branch progress toward infrastructure improvements to achieve benefits for the public." The proposed desired outcome is "Practices to increase perceived accountability."

To assist in the fiscal accountability requirements of the branch, the AOC developed and established the statewide fiscal infrastructure project, Phoenix Financial System. The Court implemented this fiscal system and processes fiscal data through the AOC's Trial Court Administrative Services Office that supports the Phoenix Financial System. The fiscal data on the following three pages are from this system and present the comparative financial statements of the Court's Trial Court Operations Fund for the last two fiscal years. The three schedules are:

1. Balance Sheet (statement of position);

2. Statement of Revenues, Expenditures, and Changes in Fund Balances (statement of activities); and
3. Statement of Program Expenditures (could be considered “product line” statement).

The fiscal year 2010–2011 information is condensed into a total funds column (does not include individual fund detail). The financial statements specify that the total funds columns for each year are for “information purposes” as the consolidation of funds are not meaningful numbers. Additionally, the financial information is presented, as required, on a modified accrual basis of accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash.

There are three basic fund classifications available for courts to use: Government, Proprietary and Fiduciary. The Court utilizes the following classifications and types:

- **Governmental**
 - **General** – Used as the chief operating fund to account for all financial resources except those required to be accounted for in a separate fund.
 - **Special Revenue** – Used to account for certain revenue sources “earmarked” for specific purposes (including grants received). Funds included here are:
 - **Special Revenue**
 1. Small Claims Advisory – 120003
 2. Grand Jury – 120005
 3. Enhanced Collections – 120007
 4. Other County Service – 120009
 - **Grants**
 1. AB 1058 Family Law Facilitator Program – 1910581
 2. AB 1058 Child Support Commissioner Program – 1910591
 3. Substance Abuse Focus Program – 1910601
- **Fiduciary**
 - **Trust** – Used to account for funds held in a fiduciary capacity for a third party (non-governmental) generally under a formal trust agreement. Generally Accepted Accounting Principles (GAAP) indicates that fiduciary funds should be used “to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government’s own programs.”¹ Fiduciary funds include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust funds and agency funds is that trust funds normally are subject to “a trust agreement that affects the degree of management involvement and the length of time that the resources are held.” Funds included here include deposits for criminal bail trust, civil interpleader, eminent domain, etc. The funds used here is:
 - Trust – 320001

¹ GASB Statement No. 34, paragraph 69.

- **Agency** - Used to account for resources received by one government unit on behalf of a secondary governmental or other unit. Agency funds, unlike trust funds, typically do not involve a formal trust agreement. Rather, agency funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. Accordingly, all assets reported in an agency fund are offset by a liability to the party(ies) on whose behalf they are held. Finally, as a practical matter, a government may use an agency fund as an internal clearing account for amounts that have yet to be allocated to individual funds. This practice is perfectly appropriate for internal accounting purposes. However, for external financial reporting purposes, GAAP expressly limits the use of fiduciary funds, including agency funds, to assets held in a trustee or agency capacity for others. Because the resources of fiduciary funds, by definition, cannot be used to support the government's own programs, such funds are specifically excluded from the government-wide financial statements.² **They are reported, however, as part of the basic fund financial statements to ensure fiscal accountability.** Sometimes, a government will hold escheat resources on behalf of another government. In that case, the use of an agency fund, rather than a private-purpose trust fund, would be appropriate. The fund included here is:
 - Distribution – Fund 400000
 - Civil Filing Fees Fund – 450000

² GASB Statement No. 34, paragraph 12.

Monterey Superior Court
 Trial Court Operations Fund
 Balance Sheet
 (Unaudited)

For the month ended Jun									
Fiscal Year 2011/12								2010/11	
	Governmental Funds					Proprietary Funds	Fiduciary Funds	Total Funds (Info. Purposes Only)	Total Funds (Info. Purposes Only)
	General	Special Revenue		Capital Project	Debt Service				
		Non-Grant	Grant						
ASSETS									
Operations	\$ (290,759)	\$ 1,518	\$ 0				\$ 2,439,807	\$ 2,150,566	\$ (1,327,284)
Payroll	\$ 0	\$ 0						\$ 0	\$ 0
Jury									
Revolving	\$ 25,000							\$ 25,000	\$ 25,000
Other									
Distribution							\$ 4,987	\$ 4,987	\$ 184,401
Civil Filing Fees							\$ 0	\$ 0	\$ 0
Trust							\$ (87,682)	\$ (87,682)	\$ 761,106
Credit Card									
Cash on Hand	\$ 4,850							\$ 4,850	\$ 4,850
Cash with County									
Cash Outside of the AOC	\$ 0						\$ 166,996	\$ 166,996	\$ 878,103
Total Cash	\$ (260,909)	\$ 1,518	\$ 0				\$ 2,524,108	\$ 2,264,717	\$ 526,176
Short Term Investment	\$ 7,234,152							\$ 10,364,170	\$ 11,538,083
Investment in Financial Institution									
Total Investments	\$ 7,234,152						\$ 3,130,019	\$ 10,364,170	\$ 11,538,083
Accrued Revenue	\$ 6,261	\$ 7						\$ 6,268	\$ 35,232
Accounts Receivable - General									
Dishonored Checks									
Due From Employee	\$ 229							\$ 229	\$ 0
Civil Jury Fees									\$ 0
Trust									
Due From Other Funds	\$ 173,052							\$ 173,052	\$ 221,186
Due From Other Governments	\$ 14,210	\$ 23,049	\$ 0					\$ 37,259	\$ 136,630
Due From Other Courts	\$ 33,662	\$ 0					\$ 0	\$ 33,662	\$ 32,847
Due From State	\$ 711,360	\$ 0	\$ 191,752					\$ 903,112	\$ 747,802
Trust Due To/From							\$ 1,931,904	\$ 1,931,904	\$ 708,111
Distribution Due To/From							\$ 607,191	\$ 607,191	\$ 596,517
Civil Filing Fee Due To/From									
General Due To/From	\$ 1,278							\$ 1,278	\$ 848
Total Receivables	\$ 940,052	\$ 23,056	\$ 191,752				\$ 2,539,094	\$ 3,693,954	\$ 2,479,173
Prepaid Expenses - General									\$ 0
Salary and Travel Advances	\$ 0							\$ 0	\$ 0
Counties									
Total Prepaid Expenses	\$ 0							\$ 0	\$ 0
Other Assets									
Total Other Assets									
Total Assets	\$ 7,913,294	\$ 24,575	\$ 191,752				\$ 8,193,222	\$ 16,322,842	\$ 14,543,432
LIABILITIES AND FUND BALANCES									
Accrued Liabilities	\$ 290,440	\$ 0	\$ 30,960					\$ 321,400	\$ 717,930
Accounts Payable - General	\$ 0	\$ 0	\$ 0				\$ 0	\$ 0	\$ 0
Due to Other Funds	\$ 5	\$ 12,260	\$ 160,792				\$ 2,540,368	\$ 2,713,424	\$ 1,526,662
Due to Other Courts									\$ 0
Due to State									
TC145 Liability							\$ 551,361	\$ 551,361	\$ 505,222
Due to Other Governments			\$ 0					\$ 0	\$ 34,000
AB145 Due to Other Government Agency							\$ 281,342	\$ 281,342	\$ 320,055
Due to Other Public Agencies									
Sales and Use Tax	\$ 0							\$ 0	\$ 603
Interest							\$ 84	\$ 84	\$ 33
Miscellaneous Accts. Pay. and Accrued Liab.									\$ 0
Total Accounts Payable and Accrued Liab.	\$ 290,444	\$ 12,260	\$ 191,752				\$ 3,373,155	\$ 3,867,611	\$ 3,104,505
Civil								\$ 2,016,173	\$ 456,189
Criminal	\$ 0						\$ 2,608,020	\$ 2,608,020	\$ 1,815,039
Unreconciled - Civil and Criminal									
Trust Held Outside of the AOC	\$ 0						\$ 166,996	\$ 166,996	\$ 878,103
Trust Interest Payable	\$ 0						\$ 220	\$ 220	\$ 270
Miscellaneous Trust									
Total Trust Deposits	\$ 0						\$ 4,791,409	\$ 4,791,409	\$ 3,149,602
Accrued Payroll	\$ 63,145	\$ 0						\$ 63,145	\$ 517,242
Benefits Payable	\$ 217,994							\$ 217,994	\$ 45,196
Deferred Compensation Payable	\$ 41,893							\$ 41,893	\$ 16,997
Deductions Payable	\$ 327,508							\$ 327,508	\$ 0
Payroll Clearing	\$ 344,440	\$ 3,096						\$ 347,536	
Total Payroll Liabilities	\$ 994,979	\$ 3,096						\$ 998,076	\$ 579,435
Revenue Collected in Advance	\$ 0							\$ 0	\$ 0
Liabilities For Deposits	\$ 3,771							\$ 3,771	\$ 3,795
Jury Fees - Non-Interest							\$ 28,658	\$ 28,658	\$ 35,356
Fees - Partial Payment & Overpayment									
Uncleared Collections	\$ (798)						\$ 0	\$ (798)	\$ 0
Other Miscellaneous Liabilities									\$ 0
Total Other Liabilities	\$ 2,973						\$ 28,658	\$ 31,631	\$ 39,151
Total Liabilities	\$ 1,288,397	\$ 15,356	\$ 191,752				\$ 8,193,222	\$ 9,688,727	\$ 6,872,692
Total Fund Balance	\$ 6,624,897	\$ 9,218	\$ 0					\$ 6,634,116	\$ 7,670,739
Total Liabilities and Fund Balance	\$ 7,913,294	\$ 24,575	\$ 191,752				\$ 8,193,222	\$ 16,322,842	\$ 14,543,432

**Monterey Superior Court
Trial Court Operations Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
(Unaudited)**

For the month ended Jun											
Fiscal Year 2011/12										2010/11	
	Governmental Funds					Proprietary Funds	Fiduciary Funds	Total Funds (Info. Purposes Only)	Current Budget (Annual)	Total Funds (Info. Purposes Only)	Final Budget (Annual)
	General	Special Revenue		Capital Projects	Debt Service						
		Non-Grant	Grant								
REVENUES											
State Financing Sources											
Trial Court Trust Fund	\$ 18,392,478						\$ 18,392,478	\$ 17,999,219	\$ 22,907,736	\$ 22,433,180	
Trial Court Improvement Fund	\$ 38,229						\$ 38,229		\$ 23,080		
Judicial Administration Efficiency & Mod Fund	\$ 18,750						\$ 18,750	\$ 40,862	\$ 36,325	\$ 54,012	
Judges' Compensation (45.25)	\$ 173,785						\$ 173,785	\$ 190,000	\$ 149,007	\$ 190,000	
Court Interpreter (45.45)	\$ 928,603						\$ 928,603	\$ 840,000	\$ 831,798	\$ 885,000	
Civil Coordination Reimbursement (45.55)	\$ 779,335						\$ 779,335	\$ 713,982	\$ 695,233	\$ 750,480	
MOJ Reimbursements (45.10 and General)	\$ 184,042						\$ 184,042	\$ 184,042			
Other Miscellaneous											
	\$ 20,515,223						\$ 20,515,223	\$ 19,968,105	\$ 24,643,179	\$ 24,312,672	
Grants											
AB 1058 Commissioner/Facilitator			\$ 530,899				\$ 530,899	\$ 639,814	\$ 625,734	\$ 639,814	
Other AOC Grants			\$ 30,960				\$ 30,960	\$ 34,000	\$ 34,000	\$ 31,300	
Non-AOC Grants											
			\$ 561,859				\$ 561,859	\$ 673,814	\$ 659,734	\$ 671,114	
Other Financing Sources											
Interest Income	\$ 32,392	\$ 34					\$ 32,427	\$ 52,000	\$ 50,359	\$ 36,000	
Investment Income											
Donations									\$ 0		
Local Fees	\$ 404,246						\$ 404,246	\$ 410,200	\$ 362,453	\$ 412,800	
Non-Fee Revenues	\$ 6,686						\$ 6,686	\$ 12,000	\$ 11,609	\$ 10,500	
Enhanced Collections		\$ 103,476					\$ 103,476	\$ 90,000	\$ 79,766	\$ 90,000	
Escheatment	\$ 343						\$ 343			\$ 5,000	
Prior Year Revenue	\$ 169,126		\$ 0				\$ 169,127		\$ 32,956		
County Program - Restricted		\$ 38,624					\$ 38,624	\$ 73,500	\$ 86,835	\$ 93,000	
Reimbursement Other	\$ 15,034	\$ 48,033					\$ 63,067	\$ 55,896	\$ 92,964	\$ 655,551	
Sale of Fixed Assets											
Other Miscellaneous	\$ 7,414						\$ 7,414	\$ 8,000	\$ 7,036	\$ 10,000	
	\$ 635,242	\$ 190,168	\$ 0				\$ 825,411	\$ 701,596	\$ 723,979	\$ 1,312,851	
Total Revenues	\$ 21,150,465	\$ 190,168	\$ 561,859				\$ 21,902,493	\$ 21,343,515	\$ 26,026,891	\$ 26,296,637	
EXPENDITURES											
Personal Services											
Salaries - Permanent	\$ 11,956,696	\$ 73,681	\$ 305,728				\$ 12,336,105	\$ 10,837,354	\$ 11,756,791	\$ 11,700,383	
Temp Help	\$ 83,946						\$ 83,946	\$ 484,566	\$ 148,841	\$ 111,849	
Overtime	\$ 46,235	\$ 144					\$ 46,379	\$ 53,500	\$ 60,481	\$ 45,000	
Staff Benefits	\$ 5,205,138	\$ 78,040	\$ 115,389				\$ 5,398,566	\$ 6,258,336	\$ 5,363,075	\$ 6,025,900	
	\$ 17,292,014	\$ 151,865	\$ 421,116				\$ 17,864,995	\$ 17,633,756	\$ 17,329,188	\$ 17,883,132	
Operating Expenses and Equipment											
General Expense	\$ 451,312		\$ 4,380				\$ 455,691	\$ 563,714	\$ 1,542,333	\$ 1,833,027	
Printing	\$ 68,674		\$ 1,890				\$ 70,564	\$ 78,013	\$ 76,006	\$ 64,400	
Telecommunications	\$ 135,299		\$ 2,052				\$ 137,351	\$ 140,317	\$ 135,931	\$ 142,500	
Postage	\$ 126,726		\$ 527				\$ 127,254	\$ 130,000	\$ 127,600	\$ 189,750	
Insurance	\$ 10,087						\$ 10,087	\$ 13,339	\$ 10,705	\$ 14,200	
In-State Travel	\$ 19,494		\$ 2,428				\$ 21,921	\$ 21,133	\$ 24,362	\$ 38,975	
Out-of-State Travel	\$ (650)	\$ 2,114					\$ 1,564	\$ 2,500	\$ 2,137		
Training	\$ 7,599						\$ 7,599	\$ 22,662	\$ 12,520	\$ 34,050	
Security Services	\$ 698,908		\$ 21,511				\$ 720,419	\$ 652,455	\$ 4,092,862	\$ 4,586,043	
Facility Operations	\$ 274,801		\$ 1,036				\$ 275,838	\$ 313,979	\$ 389,111	\$ 471,500	
Utilities	\$ 352						\$ 352	\$ 1,600	\$ 336	\$ 500	
Contracted Services	\$ 2,291,211	\$ 7,500	\$ 37,360				\$ 2,336,071	\$ 2,416,583	\$ 2,359,128	\$ 2,962,250	
Consulting and Professional Services	\$ 20,288						\$ 20,288	\$ 23,000	\$ 40,509	\$ 62,300	
Information Technology	\$ 540,301		\$ 4,957				\$ 545,258	\$ 665,439	\$ 599,341	\$ 614,200	
Major Equipment	\$ 134,531		\$ 1,384				\$ 135,915	\$ 146,659	\$ 650,857	\$ 784,000	
Other Items of Expense	\$ 15,169		\$ 244				\$ 15,413	\$ 17,000	\$ 11,938	\$ 22,200	
	\$ 4,794,202	\$ 9,614	\$ 77,768				\$ 4,881,584	\$ 5,208,393	\$ 10,075,674	\$ 11,819,895	
Special Items of Expense											
Grand Jury	\$ (4,000)	\$ 11,909					\$ 7,909	\$ 17,920	\$ 17,546	\$ 15,654	
Jury Costs	\$ 183,125						\$ 183,125	\$ 183,500	\$ 126,695	\$ 155,000	
Judgements, Settlements and Claims	\$ 1,503						\$ 1,503	\$ 1,550	\$ 250		
Debt Service											
Other											
Capital Costs											
Internal Cost Recovery	\$ (96,764)	\$ 16,554	\$ 80,211				\$ 0	\$ 0	\$ 0		
Prior Year Expense Adjustment	\$ (1)		\$ 0				\$ (1)		\$ 46,500		
	\$ 83,863	\$ 28,463	\$ 80,211				\$ 192,537	\$ 202,970	\$ 190,991	\$ 170,654	
Total Expenditures	\$ 22,170,080	\$ 189,942	\$ 579,095				\$ 22,939,117	\$ 23,045,119	\$ 27,595,853	\$ 29,873,681	
Excess (Deficit) of Revenues Over Expenditures	\$ (1,019,615)	\$ 227	\$ (17,236)				\$ (1,036,624)	\$ (1,701,604)	\$ (1,568,962)	\$ (3,577,044)	
Operating Transfers In (Out)	\$ (17,236)		\$ 17,236				\$ 0	\$ 0	\$ 0	\$ 0	
Fund Balance (Deficit)											
Beginning Balance (Deficit)	\$ 7,661,748	\$ 8,991	\$ 0				\$ 7,670,739	\$ 7,670,739	\$ 9,239,701	\$ 9,239,701	
Ending Balance (Deficit)	\$ 6,624,897	\$ 9,218	\$ 0				\$ 6,634,116	\$ 5,969,135	\$ 7,670,739	\$ 5,662,657	

Monterey Superior Court
 Trial Court Operations Fund
 Statement of Program Expenditures
 (Unaudited)

	For the month ended Jun									
	Fiscal Year 2011/12								2010/11	
	Personal Services	Operating Expenses and Equipment	Special Items of Expense	Capital Costs	Internal Cost Recovery	Prior Year Expense Adjustment	Total Actual Expense	Current Budget (Annual)	Total Actual Expense	Final Budget (Annual)
PROGRAM EXPENDITURES:										
Judges & Courtroom Support	\$ 5,331,082	\$ 948,099				\$ 0	\$ 6,279,181	\$ 6,386,346	\$ 6,860,463	\$ 6,949,618
Traffic & Other Infractions	\$ 1,043,240	\$ 362,362			\$ (16,554)		\$ 1,389,048	\$ 1,117,034	\$ 1,502,450	\$ 1,760,206
Other Criminal Cases	\$ 3,067,720	\$ 548,737	\$ 1,503				\$ 3,617,961	\$ 3,460,405	\$ 3,774,875	\$ 4,149,911
Civil	\$ 1,121,070	\$ 247,184	\$ 0				\$ 1,368,254	\$ 1,398,194	\$ 1,474,149	\$ 1,602,487
Family & Children Services	\$ 1,211,423	\$ 526,665			\$ 0		\$ 1,738,088	\$ 1,570,955	\$ 1,618,867	\$ 1,601,631
Probate, Guardianship & Mental Health Services	\$ 329,419	\$ 118,877					\$ 448,295	\$ 322,917	\$ 353,672	\$ 349,727
Juvenile Dependency Services	\$ 107,018	\$ 307,040					\$ 414,058	\$ 445,587	\$ 447,269	\$ 486,830
Juvenile Delinquency Services	\$ 72,437	\$ 12,495					\$ 84,932	\$ 122,221	\$ 100,960	\$ 186,175
Other Court Operations	\$ 553,887	\$ 91,381					\$ 645,269	\$ 898,497	\$ 1,086,623	\$ 1,213,566
Court Interpreters	\$ 658,338	\$ 415,731					\$ 1,074,068	\$ 1,152,437	\$ 1,062,060	\$ 1,283,196
Jury Services	\$ 318,181	\$ 144,149	\$ 181,125				\$ 643,455	\$ 715,257	\$ 830,943	\$ 755,973
Security		\$ 722,567				\$ (1)	\$ 722,567	\$ 637,955	\$ 4,242,788	\$ 4,958,863
Trial Court Operations Program	\$ 13,813,815	\$ 4,445,287	\$ 182,628		\$ (16,554)	\$ (1)	\$ 18,425,176	\$ 18,227,805	\$ 23,355,118	\$ 25,298,183
Enhanced Collections	\$ 86,923	\$ 0			\$ 16,554		\$ 103,476	\$ 90,000	\$ 85,822	\$ 90,000
Other Non-Court Operations	\$ 64,942		\$ 11,909				\$ 76,851	\$ 131,946	\$ 129,880	\$ 135,255
Non-Court Operations Program	\$ 151,865	\$ 0	\$ 11,909		\$ 16,554		\$ 180,327	\$ 221,946	\$ 215,703	\$ 225,255
Executive Office	\$ 613,068	\$ 45,531	\$ (2,000)				\$ 656,600	\$ 846,356	\$ 650,439	\$ 969,493
Fiscal Services	\$ 813,604	\$ 124,990					\$ 938,594	\$ 905,933	\$ 918,672	\$ 1,007,406
Human Resources	\$ 638,232	\$ 51,003					\$ 689,234	\$ 620,345	\$ 616,336	\$ 530,701
Business & Facilities Services	\$ 645,328	\$ 92,798					\$ 738,126	\$ 737,966	\$ 492,575	\$ 521,334
Information Technology	\$ 1,189,084	\$ 121,976					\$ 1,311,059	\$ 1,484,768	\$ 1,347,010	\$ 1,321,309
Court Administration Program	\$ 3,899,316	\$ 436,298	\$ (2,000)				\$ 4,333,613	\$ 4,595,368	\$ 4,025,031	\$ 4,350,243
Expenditures Not Distributed or Posted to a Program										
Prior Year Adjustments Not Posted to a Program										
Total	\$ 17,864,995	\$ 4,881,584	\$ 192,537		\$ 0	\$ (1)	\$ 22,939,117	\$ 23,045,119	\$ 27,595,853	\$ 29,873,681

PURPOSE AND SCOPE

The purpose of this review was to determine the extent to which the Court has:

- Designed and implemented an internal control structure that can be relied upon to ensure the reliability and integrity of information; compliance with policies, procedures, laws and regulations; the safeguarding of assets; and the economical and efficient use of resources.
- Complied with the *Trial Court Financial Policies and Procedures Manual* and the Court's own documented policies and procedures.
- Complied with various statutes and Rules of Court.

The scope of audit work included reviews of the Court's major functional areas, including but not limited to: cash collections, contracting and procurement, accounts payable, financial accounting and reporting, payroll processing, fixed assets management, information technology, and exhibits handling. The depth of audit coverage in each area is based on initial audit scope coverage decisions. Additionally, although we may have reviewed more recent transactions, the period covered by this review consisted primarily of fiscal year 2011–2012.

The Judicial Council in December 2009 adopted CRC 10.500 with an effective date of January 1, 2010, that provides for 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 considered confidential or sensitive in nature that would compromise the security of the Court or the safety of judicial branch personnel was omitted from this audit report.

TIMING AND REVIEWS WITH MANAGEMENT

The entrance letter was issued to the Court on March 22, 2012.

The entrance meeting was held with the Court on September 10, 2012.

Audit fieldwork commenced on September 10, 2012.

Fieldwork was completed in December 2012.

Preliminary results were communicated and discussed with Court management during the course of the review. A preliminary review of the audit results was held on September 12, 2013, with the following:

- Hon. Marla O. Anderson, Presiding Judge
- Connie Mazzei, Court Executive Officer
- Christine Ace, Director of Finance
- Felipe Navarro, Assistant Director of Finance

IAS received the Court's final management responses to the IAS recommendations on August 19, 2013. IAS incorporated the Court's final responses in the audit report and subsequently provided the Court with a draft version of the audit report for its review and comment on September 6th. On September 16, 2013 the Court provided its final comments and suggestions concerning its review of the audit report and did not consider another review of the report necessary before IAS issued the final audit report.

ISSUES AND MANAGEMENT RESPONSES

1. Court Administration

Background

The Judicial Council established rules and policies to promote efficiency and uniformity in trial court management. It adopted Rules of Court under Government Code Section (GC) 77001 and the FIN Manual under CRC 10.804 to provide requirements and guidelines concerning court governance. Within the boundaries established by the Judicial Council, each trial court has the authority and responsibility for managing its own operations. All trial court employees shall fulfill at least the minimum requirements of their positions; conduct themselves with honesty, integrity, and professionalism; and operate within the specific levels of authority.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with court administrative decisions. A description of these accounts and audit procedures we performed to review court administration follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures				
920502 DUES & MEMBERSHIPS-LEGAL	3,825	2,475	1,350	55%
920503 DUES & MEMBERSHIPS-OTHER	2,187	1,284	903	70%
* 920500 - DUES AND MEMBERSHIPS	6,012	3,759	2,253	60%
933101 TRAINING	6,594	9,495	(2,901)	-31%
933102 TUITION REIMBURSEMENT (NO	1,005	3,025	(2,020)	-67%
* 933100 - TRAINING	7,599	12,520	(4,921)	-39%

We assessed the Court's compliance with CRC and FIN Manual requirements for trial court management through a series of self-assessment questionnaires. We also performed testing to evaluate compliance with the following:

- Expense restrictions contained in *Operating Guidelines and Directives for Budget Management in the Judicial Branch*, including professional association dues and membership payments for individuals making over \$100,000 a year.
- Rules for taking cases under submission.
- FIN Manual procedures for training approval.

We also reviewed Court personnel's cash handling and fiscal responsibilities for appropriate management oversight and segregation of duties.

The following issue were considered significant enough to bring to management's attention. Additional minor issues may be contained in Appendix A.

1.1 Court-Funded Employee Allowances may be used for Questionable or Non-Reimbursable Expenses

Background

Trial courts must follow high standards when using public funds. Article XVI of the California Constitution prohibits the authorization or making of any gift of public money or thing of value to any individual, municipal, or corporation. Additionally, Government Code Section 8314 makes it unlawful for any state or local officer or employee to permit the use of public resources for personal or other purposes which are not authorized by law. Therefore, trial courts may not use court funds to purchase gifts or other items that serve a personal purpose. To provide clarity on what may or may not be considered gifts of public funds, the California Attorney General issued two opinions concluding that the use of public funds to provide county and school district employees with service awards would not violate the constitutional prohibition against making a gift of public funds (10 Ops.Cal.Atty.Gen. 18 (1947); 5 Ops.Cal.Att.Gen. 81 (1945)). Specifically, the attorney general found that providing awards to employees in the form of pins, lapel buttons, and certificates serves a public purpose by promoting efficiency, initiative, and morale generally in the public service. Additionally, the attorney general found that providing service awards to employees was within the general authority of the employer to compensate its employees.

The FIN Manual also provides policies and procedures on how court funds may be used. For example, FIN 8.03, 3.0 specifies that courts should reimburse its judges and employees for reasonable and necessary travel expenses incurred while traveling on court business within the limits of the trial court's maximum reimbursement guidelines, which must follow the Judicial Branch Travel Guidelines unless exceptions has been approved as an alternative procedure. However, FIN 8.03, 6.5 prohibits courts from using court funds to reimburse professional association dues for all judges, subordinate judicial officers, and those trial court employees who are not represented by a recognized employee organization and who earn more than \$100,000 per year. This restriction does not affect reimbursement of the costs of licenses that are a requirement of the position, such as State Bar licenses. Additionally, FIN 8.05, 3.0 specifies that courts may pay vendors' invoices or reimburse their judges and employees for the actual cost of business meals when the rules and limits described in FIN 8.05 are met. To be considered a business meal, the meal must take place during discussions of court business or associated with court conferences, meetings, and workshops, when there is a business need to keep participants together.

Issue

The Court provides monetary allowances to certain employees to be used in the employees' discretion to pay for expenses that are questionable or prohibited by the FIN Manual for a court to pay or reimburse. Specifically, the Court provides monthly allowances that total \$1,800 per year to each executive unit employee and \$900 per year to each management unit employee. Although these allowances are intended to pay for reimbursable expenses including business meals and incidental travel between court locations, they may also pay for purchases to provide employees with incentives, recognition, awards, and appreciation events that may be questionable uses of public funds.

For instance, purchases to provide employees with incentives, recognition, and awards to recognize their contributions to the Court may serve a public purpose and therefore considered to be appropriate if the items purchased and amounts spent are reasonable and prudent. Similarly, events to recognize employees' contributions to the Court may be appropriate if the event is an insignificant portion of a meeting held to discuss or conduct court business. However, the Court permits the use of allowances to support holiday and other social functions for employees (e.g. Green Day Event, Halloween Costume Contest, Holiday Luncheon). Employee appreciation events primarily characterized as celebrations or parties are inappropriate uses of public funds because they are social in nature and provide a personal benefit to attendees rather than serve a business purpose of the court. These situations present a risk of adverse publicity that is not desirable.

Additionally, employees in the executive unit each receive a \$500 annual professional allowance. Although the allowance may be used for certain reimbursable expenses such as education expenses, it may also be used for professional memberships that are not allowed by the FIN Manual for this group of employees.

Recommendation

To ensure that the Court exercises prudent use of public funds, it should consider revising its policies for executive and management unit staff allowances.

Specifically, it must clarify the requirements surrounding the use of monthly allowances for employee incentives, recognition, awards, and appreciation events to ensure that funds are not used for questionable or unallowable expenses. For example, it should prohibit the use of monthly allowances for whose sole or primary purpose can be characterized as a social event such as parties, meals, and other events to celebrate holidays and other social occasions unrelated to court business. Employee appreciation events funded by these allowances should be held as part of a meeting where court business is conducted or discussed, and awards to recognize or incentivize employee contributions should be reasonable and prudent.

Furthermore, it should prohibit unrepresented employees who earn more than \$100,000 from using annual professional allowances to pay for professional association dues, except for licenses that are a requirement of the position.

Superior Court Response By: Christine M. Ace Date: 8/15/13

The Court is in agreement. The Court is working with legal counsel to draft and update appropriate policies.

Date of Corrective Action: November 1, 2013
Responsible Person(s): Christine M. Ace

2. Fiscal Management and Budgets

Background

Trial courts must employ sound business, financial, and accounting practices to conduct its fiscal operations. To operate within the limitations of the funding approved and appropriated in the State Budget Act, courts should establish budgetary controls to monitor its budget on an ongoing basis to assure that actual expenditures do not exceed budgeted amounts. As personnel services costs account for more than half of many trial courts budgets, courts must establish a position management system that includes, at a minimum, a current and updated position roster, a process for abolishing vacant positions, and a process and procedures for requesting, evaluating, and approving new and reclassified positions.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with fiscal management and budgeting practices. A description of these accounts and audit procedures we performed to review fiscal management and budgeting practices follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Liabilities - payroll				
374001 PAYROLL CLEARING ACCOUNT	(347,536)	-	347,536	-
374101 RETIREMENT CONTRIBUTIONS	(157,506)	-	157,506	-
374201 VOLUNTARY DEDUCTIONS EE	(69)	-	69	-
374304 STATE DISABILITY INSURANC	(4,648)	-	4,648	-
374305 SOCIAL SECURITY & MEDICAR	(64,455)	-	64,455	-
374401 STATE INCOME TAX WITHHOLD	(22,107)	-	22,107	-
374501 FEDERAL INCOME TAX WITHHO	(70,245)	-	70,245	-
374601 MANDATORY DEDUCTIONS EE	(285)	-	285	-
374603 UNION DUES	(8,194)	-	8,194	-
374701 HEALTH BENEFITS PAYABLE E	(354)	-	354	-
374702 BENEFITS PAYABLE-MEDICAL	(165,744)	(719)	165,025	22957%
374703 BENEFITS PAYABLE-DENTAL E	(36,631)	(37,788)	(1,157)	-3%
374704 BENEFITS PAYABLE-VISION E	(2,964)	(3,216)	(251)	-8%
374705 BENEFITS PAYABLE-LIFE EE	(1,363)	(9)	1,354	15049%
374706 BENEFITS PAYABLE-FLEX SPE	(7,288)	109	7,179	6586%
374707 BENEFITS PAYABLE-LTD EE A	(3,649)	(3,573)	76	2%
374801 DEFERRED COMPENSATION PAY	(41,893)	(16,997)	24,896	146%
375001 ACCRUED PAYROLL	(63,145)	(517,242)	(454,097)	-88%

Expenditures - payroll

900301 SALARIES - PERMANENT	9,503,234	8,974,277	528,958	6%
900302 SALARIES - COURT REPORTER	965,658	981,139	(15,481)	-2%
900303 SALARIES - COURT ATTORNEY	872,788	895,095	(22,307)	-2%
900306 SALARIES - COURT INTERPRE	424,595	401,817	22,778	6%
900325 BILINGUAL PAY	33,856	37,108	(3,252)	-9%
900350 FURLOUGH & SALARY REDUCTI	(117,511)	(509,485)	(391,974)	-77%
900351 FURLOUGH CLOSURE (NON-JUD	127,148	498,893	(371,745)	-75%
* 900300 - SALARIES - PERMANENT	11,809,767	11,278,843	530,924	5%
903301 TEMPORARY EMPLOYEES - ON	83,946	148,841	(64,896)	-44%
* 903300 - TEMP HELP	83,946	148,841	(64,896)	-44%

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures – payroll (continued)				
906303 SALARIES - COMMISSIONERS	353,449	299,733	53,716	18%
906311 SALARIES - SUPERIOR COURT	172,888	178,186	(5,298)	-3%
906350 FURLOUGH SAVINGS - COMMIS		28	(28)	-100%
* 906300 - SALARIES - JUDICIAL OFFI	526,338	477,947	48,390	10%
908301 OVERTIME	46,379	60,481	(14,102)	-23%
* 908300 - OVERTIME	46,379	60,481	(14,102)	-23%
** SALARIES TOTAL	12,466,430	11,966,113	500,317	4%
910301 SOCIAL SECURITY INS & MED	737,268	710,936	26,333	4%
910302 MEDICARE TAX	180,742	172,298	8,444	5%
* 910300 - TAX	918,010	883,233	34,777	4%
910401 DENTAL INSURANCE	75,249	77,756	(2,507)	-3%
910501 MEDICAL INSURANCE	1,974,292	1,889,606	84,686	4%
910502 FLEXIBLE BENEFITS	94,118	101,324	(7,206)	-7%
* 910400 - HEALTH INSURANCE	2,143,660	2,068,687	74,973	4%
910601 RETIREMENT (NON-JUDICIAL	1,950,677	1,872,901	77,776	4%
912301 RETIREMENT (SUBORDINATE A	62,777	49,948	12,829	26%
* 910600 - RETIREMENT	2,013,455	1,922,849	90,606	5%
912501 STATUTORY WORKERS COMPENS	180,035	338,805	(158,770)	-47%
* 912500 - WORKERS' COMPENSATION	180,035	338,805	(158,770)	-47%
913301 UNEMPLOYMENT INSURANCE	11,160	19,076	(7,916)	-41%
913501 LIFE INSURANCE	8,068	8,633	(565)	-7%
913502 LONG-TERM DISABILITY	10,197	9,812	385	4%
913601 VISION CARE INSURANCE	26,489	30,268	(3,779)	-12%
913699 OTHER INSURANCE	2,054	5,754	(3,700)	-64%
* 912700 - OTHER INSURANCE	57,967	73,543	(15,576)	-21%
913701 OTHER JUDGES BENEFITS	45,919	50,533	(4,614)	-9%
* 913700 - SUPERIOR COURT JUDGES BE	45,919	50,533	(4,614)	-9%
913803 PAY ALLOWANCES	13,270	-	13,270	-
913850 BENEFIT REDUCTION SAVINGS	(9,057)	(38,980)	29,923	77%
913851 BENEFIT REDUCTION	9,057	38,980	(29,923)	-77%
913899 OTHER BENEFITS	26,250	25,425	825	3%
* 913800 - OTHER BENEFITS	39,520	25,425	14,095	55%
** STAFF BENEFITS TOTAL	5,398,566	5,363,075	35,491	1%
*** PERSONAL SERVICES TOTAL	17,864,995	17,329,188	535,807	3%

We assessed the adequacy of the Court's budget monitoring procedures, including procedures for comparing budgeted and actual revenue and expenditures, and making changes to its projections.

To evaluate the Court's management of personnel costs, we compared budgeted and actual personal services expenditures, performed a trend analysis of these expenditures, followed up on any significant expenditure changes we identified, and reviewed procedures for approving timesheets and controlling overtime costs. We also evaluated its payroll processing practices for appropriate controls. The Court contracts with Automatic Data Process Inc. (ADP) for payroll processing services. The Court utilizes ADP's electronic time-keeping service to record employee timesheets, and relies on ADP to calculate and issue bi-weekly paychecks based on these time records. We reviewed responsibilities of staff performing payroll processing activities for sufficient segregation of duties, and verified sample paycheck calculations to supporting timesheets and personnel file documentation to determine whether employee pay was correctly calculated. We also reviewed the Court's reconciliation activities to ensure it accurately accounted for and reported its payroll costs.

We identified a minor issue associated with this section that is contained in Appendix A.

3. Fund Accounting

Background

Trial courts must account for their receipt and use of public funds using the fund accounting and reporting standards published by the GASB. To assist courts in meeting this objective, the FIN Manual provides guidelines for courts to follow. FIN 3.01, 3.0, requires trial courts to establish and maintain separate funds to segregate financial resources, and allow for detailed accounting and accurate reporting of financial operations. FIN 3.01, 6.1.1 defines a “fund” as a complete set of accounting records designed to segregate various financial resources and maintain separate accountability for resources designated for specific uses, so as to ensure that public monies are only spent for approved and legitimate purposes. The Phoenix Financial System has a set of governmental, fiduciary, and proprietary funds to serve this purpose. Furthermore, the Judicial Council has approved a policy to ensure that courts are able to identify resources to meet statutory and contractual obligations, maintain a minimum level of operating and emergency funds, and provide uniform standards for fund balance reporting.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with fund accounting. A description of these accounts and audit procedures we performed to review the Court’s fund accounting practices follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Fund Balance				
535001 RESERVE FOR ENCUMBRANCES	-	(504,788)	(504,788)	-100%
552001 FUND BALANCE - RESTRICTED	(8,991)	(139,462)	(130,470)	-94%
552002 FUND BALANCE - COMMITTED	(2,301,205)	-	2,301,205	-
553001 FUND BALANCE - ASSIGNED	(5,293,738)	(9,100,239)	(3,806,501)	-42%
554001 FUND BALANCE - UNASSIGNED	(66,805)	-	66,805	-
615001 ENCUMBRANCES	-	504,788	(504,788)	-100%
*** Fund Balances	(7,670,739)	(9,239,701)	(1,568,962)	-17%
***** NET SOURCES & USES	1,036,624	1,568,962	(532,338)	-34%

The Court uses the Statewide Phoenix Financial System, which has set of governmental and fiduciary funds for the Court to separately account for and report the fiscal activity of its programs. We reviewed the Court’s financial reports and general ledger transactions to determine whether it separately accounted for restricted funding sources and expenditures. We also reviewed its year-end fund balance reserves to determine whether it complied with Judicial Council approved policy.

There were no significant issues identified during this audit to report to management in this section.

4. Accounting Principles and Practices

Background

Trial courts must accurately account for its use of public funds, and demonstrate accountability by producing financial reports that are understandable, reliable, relevant, timely, consistent, and comparable. To assist courts in meeting these objectives, the FIN Manual provides uniform accounting guidelines for trial courts to follow when recording revenues and expenditures associated with court operations. These guidelines also require courts to prepare various external financial reports to the AOC, and internal financial reports for monitoring purposes.

Since migrating onto the Phoenix Financial System, the Court receives, among other things, general ledger accounting, analysis, reconciliation, and reporting support services from the Trial Court Administrative Services Office. Some of the benefits of the Phoenix Financial System are consistent application of FIN Manual accounting guidelines and automated generation of financial reports.

The Court receives various federal and state grants the AOC and the County allocates to it. The Court must follow use restrictions and other requirements provided in grant agreements. For instance, most grants are reimbursement type grants that require it to initially pay for personnel and operating costs with general fund, and then submit detailed invoices to obtain grant funding to reimburse its general fund. To demonstrate that expenditures qualify for grant funding, it must maintain detailed records to support these expenditures. Additionally, it must separately track and account for grant funding and expenditures to demonstrate that it used grant funds to pay for allowable costs. As a part of the annual single audit of the State performed by the Bureau of State Audits, the AOC requests courts to list and report the federal grant awards it received.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with general ledger accounting and grant administration. A description of these accounts and audit procedures we performed to review the Court's accounting practices follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Assets				
130001 A/R-ACCRUED REVENUE	6,268	35,232	(28,964)	-82%
131602 A/R - DUE FROM EMPLOYEE F	229	-	229	-
140002 TRUST-DUE FROM DISTRIBUTI	1,931,904	708,111	1,223,793	173%
140005 DISTRIBUTION-DUE FROM TRU	607,186	596,517	10,669	2%
140007 DISTRIBUTION-DUE FROM OPE	5	-	5	-
140011 OPERATIONS-DUE FROM TRUST	917	612	306	50%
140012 OPERATIONS-DUE FROM DISTR	361	237	124	52%
140014 GENERAL-DUE FROM SPECIAL	173,052	221,186	(48,134)	-22%
150001 A/R - DUE FROM OTHER GOVE	37,259	136,630	(99,371)	-73%
151000 A/R-DUE FROM COURTS	33,662	32,847	816	2%
152000 A/R-DUE FROM STATE	903,112	747,802	155,310	21%
** Receivables	3,693,954	2,479,173	1,214,782	49%

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Liabilities				
314002 DISTRIBUTION-DUE TO TRUST	(1,931,904)	(708,111)	1,223,793	173%
314005 TRUST-DUE TO DISTRIBUTION	(607,186)	(596,517)	10,669	2%
314007 OPERATIONS-DUE TO DISTRIB	(5)	-	5	-
314011 TRUST-DUE TO OPERATIONS	(917)	(612)	306	50%
314012 DISTRIBUTION-DUE TO OPERA	(361)	(237)	124	52%
314014 SPECIAL REVENUE-DUE TO GE	(173,052)	(221,186)	(48,134)	-22%
321600 A/P - TC145 LIABILITY	(551,361)	(505,222)	46,139	9%
322001 A/P - DUE TO OTHER GOVERN	-	(34,000)	(34,000)	-100%
323001 A/P - SALES & USE TAX	-	(603)	(603)	-100%
323010 TREASURY INTEREST PAYABLE	(84)	(33)	51	156%
330001 A/P - ACCRUED LIABILITIES	(321,400)	(717,930)	(396,530)	-55%
*** Accounts Payable	(3,586,269)	(2,784,449)	801,820	29%

Liabilities – Trust and Agency

351003 LIABILITIES FOR DEPOSITS	(3,771)	(3,795)	(24)	-1%
353002 CIVIL TRUST-CONDEMNATION		(5,000)	(5,000)	-100%
353003 CIVIL TRUST-OTHER(RPRTR	(1,990,102)	(435,477)	1,554,625	357%
353004 JURY FEES- NON-INTEREST B	(28,658)	(35,356)	(6,698)	-19%
353005 TRAFFIC	(362,710)	(72,882)	289,827	398%
353006 CRIMINAL - GENERAL	(493,933)	(245,844)	248,090	101%
353007 CRIMINAL TRUST - VICTIM R	(614,760)	(61,815)	552,945	895%
353022 CIVIL TRUST - COURT REPOR	(14,452)	(9,429)	5,023	53%
353023 CIVIL TRUST - APPEAL TRAN	(8,037)	(6,203)	1,834	30%
353024 CIVIL TRUST - SMALL CLAIM	(3,583)	(80)	3,503	4379%
353050 AB145 DUE TO OTHER GOVERN	(281,342)	(320,055)	(38,713)	-12%
353051 CRIMINAL FINES DUE TO OTH	(1,136,612)	(1,434,498)	(297,886)	-21%
353081 CRIMINAL UNCLAIMED/STALE	(5)	-	5	-
353090 FUNDS HELD OUTSIDE OF THE	(166,996)	(878,103)	(711,107)	-81%
353999 TRUST INTEREST PAYABLE	(220)	(270)	(51)	-19%
373001 UNCLEARED COLLECTIONS	798	-	(798)	-

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Revenues				
812110 TCTF-PROGRAM 45.10-OPERAT	(16,239,060)	(20,962,063)	(4,723,003)	-23%
812140 TCTF-PROGRAM 45.10-SMALL	(4,700)	(4,120)	580	14%
812141 TCTF-PROGRAM 45.10-ADMIN	(300)	(225)	75	33%
812142 TCTF-PROGRAM 45.10-ADMIN	(75)	(548)	(473)	-86%
812143 TCTF-PROGRAM 45.10-FEE WA	-	(3)	(3)	-100%
812144 TCTF-PROGRAM 45.10-CLERKS	(10,924)	(14,329)	(3,405)	-24%
812146 TCTF-PROGRAM 45.10-COPY P	(58,419)	(53,393)	5,026	9%
812148 TCTF-PROGRAM 45.10-MANUAL	(4,680)	(6,855)	(2,175)	-32%
812149 TCTF-PROGRAM 45.10-REIMBU	(83,821)	(88,202)	(4,381)	-5%
812151 TCTF-10-CUSTODY/VISITATIO	(3,453)	(3,930)	(477)	-12%
812152 TCTF-PROGRAM 45.10-RETURN	(4,058)	(4,448)	(390)	-9%
812153 TCTF-PROGRAM 45.10-GUARDI	(18,681)	(11,635)	7,046	61%
812154 TCTF-PROGRAM 45.10-INFO P	(420)	(600)	(180)	-30%
812155 TCTF-PROGRAM 45.10-ASSESS	(70,733)	(84,969)	(14,236)	-17%
812158 TCTF-10-CUSTODY/VISITATIO	(2,302)	(2,620)	(318)	-12%
812159 TCTF-10-CIVL ASSESSMENT	(1,863,422)	(1,640,047)	223,375	14%
812160 TCTF-10-MICROGRAPHICS	(27,430)	(29,749)	(2,318)	-8%
** 812100-TCTF - PGM 10 OPERATIONS	(18,392,478)	(22,907,736)	(4,515,257)	-20%
816111 GENERAL FUND REVENUE	(184,042)	-	184,042	-
** 816000-OTHER STATE RECEIPTS	(184,042)	-	184,042	-
821160 PRE-AB145	(1,060)	(1,680)	(620)	-37%
821170 GC26840.3 MARRIAGE LICENS	(14,210)	(14,360)	(150)	-1%
821180 PC1203.4 CHANGE OF PLEA	(29,980)	(26,700)	3,280	12%
821181 PC1205d INSTALLMENT FEE	(130,467)	(62,294)	68,173	109%
821183 PC1463.22a INSURANCE CONV	(258)	(104)	154	149%
821190 VC11205m TRAFFIC SCHOOL	(154,362)	(172,892)	(18,530)	-11%
821191 VC40508.6 DMV HISTORY/PRI	(73,909)	(83,877)	(9,968)	-12%
821194 CRC 10.500 PUBLIC ACCESS-	-	(546)	(546)	-100%
** 821000-LOCAL FEES REVENUE	(404,246)	(362,453)	41,793	12%
822121 GC13963f RESTITUTION REBA	(6,686)	(11,609)	(4,923)	-42%
823001 MISCELLANEOUS REVENUE	(8,112)	(7,036)	1,076	15%

831010 GF-AB2030/AB2695 SERVICE	(820)	(2,750)	(1,930)	-70%
831012 GF-PRISONER HEARING COST	(165,899)	(154,724)	11,175	7%
** 831000-GENERAL FUND - MOU/REIMBUR	(166,719)	(157,474)	9,245	6%
832010 TCTF MOU REIMBURSEMENTS	(211,131)	(154,082)	57,049	37%
832011 TCTF-PGM 45.10-JURY	(116,244)	(64,513)	51,731	80%
832012 TCTF-PGM 45.10-CAC	(283,993)	(317,362)	(33,370)	-11%
832013 TCTF-PGM 45.10-ELDER ABUS	(1,249)	(1,802)	(553)	-31%
** 832000-PROGRAM 45.10 - MOU/REIMBU	(612,617)	(537,759)	74,858	14%
833010 PROGRAM 45.25-JUDGES SALA	(173,785)	(149,007)	24,778	17%
** 833000-PROGRAM 45.25 - REIMBURSEM	(173,785)	(149,007)	24,778	17%
834010 PROGRAM 45.45-COURT INTER	(928,603)	(831,798)	96,805	12%
** 834000-PROGRAM 45.45 - REIMBURSEM	(928,603)	(831,798)	96,805	12%
836010 MODERNIZATION FUND	(18,750)	(36,325)	(17,575)	-48%
** 836000-MODERNIZATION FUND - REIMB	(18,750)	(36,325)	(17,575)	-48%
837010 IMPROVEMENT FUND REIMBURS	(38,229)	(23,080)	15,149	66%
** 837000-IMPROVEMENT FUND - REIMBUR	(38,229)	(23,080)	15,149	66%
General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		

Revenues – continued

841010 SMALL CLAIMS ADVISORY	(7,692)	(7,506)	187	2%
841012 GRAND JURY	(30,932)	(62,873)	(31,941)	-51%
841015 OTHER COUNTY SERVICES	-	(16,456)	(16,456)	-100%
** 840000-COUNTY PROGRAM - RESTRICTE	(38,624)	(86,835)	(48,211)	-56%
861010 CIVIL JURY REIMBURSEMENT	(13,927)	(11,245)	2,682	24%
861011 MISCELLANEOUS REIMBURSEME	(49,140)	(81,719)	(32,579)	-40%
** 860000-REIMBURSEMENTS - OTHER	(63,067)	(92,964)	(29,897)	-32%

Revenues – grants

838010 AB1058 GRANTS	(530,899)	(625,734)	(94,835)	-15%
838020 OTHER AOC GRANTS	(30,960)	(34,000)	(3,040)	-9%
** 838000-AOC GRANTS - REIMBURSEMENT	(561,859)	(659,734)	(97,875)	-15%

Prior year adjustments

899910 PRIOR YEAR ADJUSTMENTS -	(169,127)	(32,956)	136,171	413%
999910 PRIOR YEAR ADJUSTMENTS -	(1)	46,500	(46,501)	-100%

We reviewed the year-end general ledger account balances for the prior two fiscal years and followed up on material account categories that changed significantly between the two years. To determine whether the Court has sufficient controls to monitor funds it holds in trust, we reviewed its procedures for depositing, disbursing, reconciling, and reporting trust accounts. We also reviewed various accounting transactions in the prior fiscal year and supporting documentation to assess the Court's compliance with FIN Manual procedures for revenue and expenditure recognition, encumbrance, year-end accrual, and other accounting practices. Additionally, we reviewed a sample of grants received in the prior fiscal year to determine whether the Court properly accounted for grant activity and complied with grant requirements.

The following issues were considered significant enough to bring to management's attention. Additional minor issues may be contained in Appendix A.

4.1 The Court Has Not Fully Reconciled All Trust Funds and Completed Trust Reconciliations are No Longer Current

Background

Trial courts receive and hold trust funds in a fiduciary capacity on behalf of others and are responsible for properly managing, monitoring, and safeguarding these funds. The FIN Manual requires courts to implement procedures and controls to manage and safeguard these funds. For example, FIN 13.01, 6.6(1) requires trial courts to reconcile all bank accounts for which court employees are authorized signers, such as local revolving and jury bank accounts, at least monthly, and more frequently if required, to maintain adequate control over trial court funds. Section 6.6(2) specifies that the person who prepares the court's monthly bank reconciliation cannot also approve it. The monthly bank reconciliation must be signed and dated by both the person who prepared it and the person who reviewed it. Section 6.2(4) also requires that courts keep a detailed record of all money received in trust by a trial court such as for bail, litigation deposits, jury fee deposits, and payments on judgments, monies for which trial courts have a fiduciary responsibility to hold in trust. This record must be maintained by case number at a sufficient level of detail to properly account for all funds held by the court. Records must contain at a minimum the following information: date received, from whom payment was received, purpose, case number, payments received, disbursements made, and method of payment. Therefore, a complete reconciliation would involve reconciling the bank account, the fiscal system, and the detailed subsidiary record system for trust account activity, usually the case management system.

Issue

The Court is not current on its trust account reconciliations to ensure that the general ledger and bank balances are supported by CMS records. The Court started depositing new trust funds into an account managed by the AOC Treasury in December 2010, but maintained its existing trust funds in a locally managed bank account. According to the Finance Manager, having two separate trust accounts made it difficult to reconcile these accounts, as only deposits into and withdraws out of the AOC Treasury were recorded in the financial system. The Court hired a temporary employee to reconcile the trust accounts, who has completed partial monthly reconciliations from December 2010 to March 2011 as of our review in October 2012, but an appropriate supervisory staff has not approved these reconciliations. Specifically, these reconciliations were performed on local bank account trust activity, but not on the AOC Treasury trust activity. The Finance Manager informed us that the AOC Treasury trust activity will be reconciled to CMS records once the local bank account trust reconciliations are up to date.

Recommendation

To ensure that it properly accounts for and safeguards trust funds it has a fiduciary responsibility, the Court should continue its trust account reconciliations in order to bring its reconciliations up to date for all trust deposits. Additionally, an appropriate supervisory staff should review and approve the reconciliations as they are completed to ensure that they are correctly performed. Once the reconciliations are current, the Court should consider transferring the remaining local bank account balance into the AOC Treasury.

Superior Court Response By: Lucille Jose, Finance Manager Date: 02/28/2013

The court agrees that it was not current on its trust account and Rabobank reconciliations. The court implemented the Trust and Treasury module for trust, criminal fines and fees and civil fees in December 2010. At that time the court did not transfer the entire trust deposits held at Rabobank which created complexities in reconciling trust to the Case Management System. A complete analysis of trust had to be completed before each month's reconciliation of trust and Rabobank accounts could be completed. Additionally, in FY10-11, the Court ran a staff reduction program and lost a key accounting staff member.

At the time of the audit the court had on staff a temporary employee with a degree and experience in accounting who was hired specifically to reconcile the trust accounts and bank statements. The reconciling of the trust and Rabobank accounts was completed thru the last bank statements received dated January 31, 2013.

The remaining trust was deposited to Bank of America trust account on February 27, 2013 and all trust accounts will be reconciled to the court's case management system by March 15, 2013.

The court will be completing a Notification to Close Bank Account for both the checking and savings account and will forward to the AOC Trust and Treasury Services. The court will be requesting to close both accounts upon the approval of the Judicial Council.

Date of Corrective Action: February 28, 2013

Responsible Person(s): Lucille Jose, Finance Manager

4.2 The Court Incorrectly Accounted Its Dental Benefits Program Activity**Background**

FIN 5.01, 3.0 requires trial courts to execute and account for financial transactions in conformity with generally accepted accounting principles (GAAP) and legal requirements. For example, section 6.3.1 requires the trial court to recognize revenues during the current fiscal year when they become both measurable and available to finance expenditures of the current period. The court must recognize revenue on a cash basis as of the date received or transferred from another fund during the fiscal year, and accrue revenue earned but not yet received at fiscal year-end. Additionally, section 6.4 requires the trial court to recognize expenditures in the fiscal year during which goods are received or services are rendered. Courts may use the cash basis of recognizing expenditures throughout the year and must accrue appropriate amounts at fiscal year-end.

The Court operates a self-funded dental benefits program for its employees. Although it relies on a third party provider for administrative services in support of its dental benefits program, including processing claims payments for plan participants, the Court assumes full responsibility and associated risks of paying qualifying program claims. Additionally, the Court uses its general fund, the Trial Court Operations Fund, instead of a separate fund to record program activity.

Issue

The Court improperly accounted for its dental benefits program activity and, as a result, misstated its dental benefits liability account balance and dental insurance expenditures. During our review of the Court's general ledger, we identified the following accounting entries that are incorrect:

- Bi-weekly payroll entries to record the employer's and employees' shares of insurance premium payments as Court expenditures and associated dental benefits liability: Since the Court self-funds its dental benefits program and uses its general fund instead of a separate fund to manage the program, it does not pay actual insurance premiums and therefore should not record these premium payments as Court expenditures. Additionally, since it requires some employees to pay monthly premiums in the form of voluntary payroll deductions to the Court to offset its program costs, these employee-paid premiums should be recorded as Court revenue as opposed to Court liability. As a result, the combined entries overstate the Court's dental insurance expenditures and associated dental benefits liability.
- Monthly payments to reimburse its third party provider for qualified dental claims payments to plan participants recorded as decreases to its dental benefits liability account balance: Since the Court already incorrectly recorded the employer's share of premium payments as a liability, it incorrectly reduced its liability account balance when it paid the actual claims. The Court should instead record actual payments to its third party provider as expenditures. As a result, the Court's expenditures incorrectly reflect the employer share of insurance premiums and not the actual cost of claims and administrative fees paid.
- Annual adjusting entries to reduce its dental insurance expenditures and associated dental benefits liability: The Court appears to have made these entries to align the program expenditures to the actual claims and administration costs paid. However, it could not provide any supporting documentation to show how it came up with these amounts and to evidence that these amounts are appropriate. Since these entries are not supported, they may distort the Court's dental insurance expenditures and dental benefits liability account balances.

Recommendation

The Court should consider using the following methodology to account for its self-funded dental benefits program activity in its general fund to ensure that it accounts for these financial transactions in conformance with GAAP:

- Discontinue recording employer's share of insurance premium payments as Court expenditures. Additionally, record insurance premiums received from plan participants as Court revenue. It may consider using a unique revenue general ledger account to separately track these premium payments to effectively monitor and evaluate net program costs to the Court.

- Record dental claims payments as expenditures. It may consider using a unique expenditure general ledger account to record its dental benefits program expenditures, including claims payments and administrative fees, to effectively monitor and evaluate net program costs to the Court.
- Record its dental benefits program revenue and expenditure accruals at year end. Specifically, the dental benefits expenditure and associated liability should include an estimated loss from claims incurred but not reported and future probable claims, if the amount of the loss can reasonably be estimated. Additionally, the Court should maintain adequate documentation to support that it used a reasonable methodology to calculate this estimate, such as application of historical claims payment information.

The Court may use an internal service fund instead of its general fund to manage its dental benefits program, but is not required to. If it uses an internal service fund, it should account for its dental benefits program activity in conformance with GASB Cod. Sec. C50.127 - .131.

Superior Court Response By: Lucille Jose Date: 8/15/2013

The Court is in agreement with the issue. The Court will consider the proposed methodology itemized below to account for its self-funded dental benefits program activity in its general fund to ensure that it conforms to GAAP:

1. Discontinue recording the employer's share of insurance premium payments as Court expenditures. Additionally, record insurance premiums received from plan participants as Court revenue
2. Record dental claims payments as expenditures.
3. Reconcile and record its dental benefits program revenue and expenditure accruals at year-end.
4. Maintain the necessary documentation to support its methodology for the fiscal management of its dental benefits program.

Furthermore, the Court will evaluate its accounting methodology to capture its dental benefits program's fiscal activity.

Date of Corrective Action: August 30, 2013 and Ongoing.

Responsible Person(s): Christine Ace, Finance Director; Lucille Jose, Finance Manager; and Felipe Navarro, Assistant Director of Finance.

5. Cash Collections

Background

Trial courts must collect and process revenue in a manner that protects the integrity of the court and its employees, and promotes public confidence. Thus, trial courts should institute procedures and internal controls that assure safe and secure collection, and accurate accounting of all payments. The FIN Manual, FIN 10.02, provides uniform guidelines for trial courts to use in receiving and accounting for payments from the public in the form of fees, fines, forfeitures, restitutions, penalties, and assessments resulting from court orders. Additionally, FIN 10.01 provides uniform guidelines regarding the collection, processing, and reporting of these amounts.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with cash collection. A description of these accounts and audit procedures we performed to review the Court's cash handling procedures follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Revenues				
821201 ENHANCED COLLECTIONS (CIV	(103,476)	(79,766)	23,710	30%
823004 CASHIER OVERAGES	697	-	(697)	-
Expenditures				
952599 CASHIER SHORTAGES	725	(304)	1,029	338%

The Court operates four locations that accept payments and deposits from the public, and records these payments and deposits in its Sustain CMS. We assessed the Court's cash handling controls and practices through interviews with management, observation of practices, and review of documentation. Specific controls and practices reviewed include, but are not limited to, the following:

- Beginning-of-day opening.
- Payment processing.
- End-of-day closeout, balancing, and reconciliation.
- Bank deposit preparation.
- Segregation of cash handling duties.
- Security of cash and other court assets
- Physical and logical security of cashiering areas and information systems.

Additionally, we reviewed sample payment entries, adjustments, and reversals in the CMS to determine whether they were properly approved, supported by sufficient documentation or complied with applicable statutory requirements or policies.

Furthermore, we reviewed the Court's comprehensive collection program to assess its collection activity controls and compliance with statutory requirements. The Court and the County jointly operate a comprehensive collection program in which the Court transfers delinquent accounts to

the County for collection and distribution. We reviewed the Court's procedures for identifying and referring delinquent accounts to the County, notifying the Department of Motor Vehicles (DMV), recording the County's collection activity in the CMS, and tracking and recovering enhanced collections costs.

The following issues were considered significant enough to bring to management's attention. Additional minor issues may be contained in Appendix A.

5.1 Certain Cash Handling Practices Need Improvement

Background

To protect the integrity of the court and its employees, and to promote public confidence, Policy Number FIN 10.02 of the FIN Manual provides courts with uniform guidelines for receiving and accounting for payments from the public. This policy requires courts to institute procedures and internal controls that assure the safe, secure collection, and accurate accounting of all payments.

For example, section 6.3.6 provides procedures for processing dishonored check payments, including payments for civil filing fees or other services in civil cases that must follow requirements provided in the Code of Civil Procedures (CCP) Section 411.20. Specifically, the court must notify the party who tendered the check for civil filing fees of all the following by mail:

- The check has been returned by the bank without payment;
- The court has imposed an administrative fee of either \$25 or a reasonable amount determined by the court that does not exceed the actual costs incurred for processing the returned check and providing the notice;
- The filing fee and the administrative fee must be paid within 20 days of the date the notice was mailed, or before the trial or hearing date if scheduled before the 20 day period expires; and
- The payment must be made by cash, certified check, or other means that the court will accept.

Should the party fail to pay the civil filing and administrative fees prior to the expiration of the 20-day period, scheduled trial, or hearing, whichever occurs first, the court must void the filing and proceed as if it had not been filed.

Section 6.3.9 provides procedures for using handwritten receipts due to failure of the automated accounting system. Specifically, the supervisor or designated employee will issue books of pre-numbered receipts to cashiers for use. The supervisor issuing the receipt books will monitor and maintain an accounting of the receipt books including; the receipt book(s) issued, to whom the receipt book(s) was given, the date given, the person returning the book(s), the receipts used within each book and the date on which the receipt book(s) are returned.

Section 6.3.12, requires trial court supervisors, managers, or fiscal officers who do not have direct responsibility for processing payments to conduct periodic surprise cash counts on all trial court staff that handle payments in the normal course of their duties to assure that payment processing errors and irregularities do not go undetected.

Issues

The Court has implemented many key controls in its cash handling practices as required by the FIN Manual. However, we identified the following areas that need improvement:

1. The Finance Division maintains a supply of handwritten receipts for branch court locations to use when the CMS is down, but does not maintain adequate documentation to control unused receipts issued and used receipts returned. The Court uses loose handwritten receipts, which are more difficult to track than receipts bound in a book, and therefore requires tighter monitoring controls to safeguard against theft, lost, and misuse. During our review, the division provided a log identifying receipts issued to one branch location but could not provide similar listings of receipts issued to other branch locations. Additionally, although it requires branch locations to return carbon copies of used hand receipts and to perform quarterly inventories of their receipt stock, the used receipts are attached to daily deposit records rather than retained in a central location, making it difficult to review for gaps in receipt issuance. As a result, we identified one missing manual receipt at the King City branch location the Finance Division was unaware of.
2. The Court allows parties whose fee waivers were denied to make installment payments on civil filing fees, but did not take appropriate action on delinquent payments. The Court informed us that it may vacate a case if the party fails to make timely payments. However, in 4 of 10 such payment plans selected for review, the Court did not void the filings when timely payments were not received.
3. The Court did not comply with statutory and FIN Manual requirements for processing dishonored check payments for civil filing fees and other services on civil cases. In all six civil dishonored check payments reviewed where parties paid for civil filing fees, the due dates specified on the notices were not 20 days from the date of the notices, but were set anywhere from 9 to 32 days after the notice date. The Court also did not timely mail the notices to the parties. In 4 of the 10 dishonored checks reviewed where parties paid for civil filing fees and other services on civil cases, the Court took from 8 to 19 days after reversing the payments in the CMS to mail the notices to the affected parties.
4. The Court has not yet conducted surprise cash counts of individuals who handle cash at any of the branch locations.

Recommendations

To ensure that it complies with cash handling requirements provided in the FIN Manual and statute, we recommend that the Court do the following:

1. Improve the Finance Division's monitoring controls over the issuance and retrieval of handwritten receipts, including maintaining sufficient documentation of receipts issuance

and return. Additionally, maintain carbon copies of used receipts returned by branch locations in a central location so that they may be inventoried and reviewed for appropriate use.

2. Improve procedures to monitor civil payment plans to ensure that installment payments on civil filing fees are timely received, and to void the associated filings if the parties fail to make timely payments.
3. Ensure that dishonored check notices require parties to pay the filing or service fee and the administrative fee within 20 days from the date the notices were sent, or the trial or hearing date if earlier. Additionally, ensure that notices are timely sent to parties.
4. Implement procedures for supervisors, managers, or fiscal officers to conduct surprise cash counts of all individuals who handle cash at least quarterly

Superior Court Responses

By: Lucille Jose, Finance Manager **Date: 02/28/2013**

Issue 1: The court agrees that the Finance Division's did not monitor proper controls over the issuance and retrieval of handwritten receipts. The court replaced the old supply of loose hand receipts with new bound manual receipts books in November 2012 along with new procedures to properly monitor the issuance and retrieval of all manual receipts. Manual Receipts books will be issued by cashier window and logged in and out on the Manual Receipt Log. The log will detail the dates the receipt books were issued and returned, to whom they were issued to and returned by. In addition, the receipt numbers used shall be documented on the log. There are three copies for each receipt, the original is to be handed to the customer, a copy forwarded to Finance and a copy shall be maintained by the division for future reference.

Each location will complete a quarterly inventory of all assigned manual receipt books and Finance will audit each location at a minimum of once per quarter beginning with the 3rd Quarter of FY 12-13.

Date of Corrective Action: Completed by December 1, 2012

Responsible Person(s): Lucille Jose, Finance Manager

By: Minnie Monarque, Director of Court Operations **Date: 03/07/2013**

Issue 2: The Court is in partial disagreement; Background provides supporting information for Returned Checks only under CCP 411.20; and CCP 411.21 discusses procedural guidelines for receiving a partial filing fee, not a payment plan.

- The Court agrees to void if first payment after fee waiver denial or denial hearing is not paid.
- Written procedures were developed and implemented in August 2012 to void filings after no monies are received for full payment; the court will amend the procedures to encompass the void filing when no first payment is received.

- The Court agrees to void if first payment is made and subsequent payments are unpaid;
- GC 68634 does not require that the clerk void a filing if subsequent payments are not received.
- Browsers and written procedures will be developed by June 2013 to route the file to a bench officer for review if subsequent payments after fee denial remain unpaid.

Date of Corrective Action: June 30, 2013

Responsible Person: Minnie Monarque, Director of Court Operations

By: Minnie Monarque, Director of Court Operations Date: 03/07/2013

Issue 3: The Court agrees.

- Browsers were created in the court's case management system in May 2012.
- Written procedures for staff were developed in June 2012.
- Training was implemented and completed July 2012.
- Procedure manual is contained within the local Trial Court Financial Policies

Date of Corrective Action: July 2012

Responsible Person: Minnie Monarque, Director of Court Operations

By: Lucille Jose, Finance Manager Date: 02/28/2013

Issue 4: The court agrees that surprise cash counts were not completed at any branch location. The court has implemented a surprise cash count procedure for all locations. Each location's supervisor or manager will conduct a surprise cash count of individuals who handle cash at a minimum of 1 per quarter depending on the amount of cashiers at each location. In addition, surprise cash counts should be completed more often if there is an increase of cashier overages/shortages. The Finance Division will conduct quarterly cash handling audits which will include auditing cashiers, bookkeepers, change funds, check acceptance, manual receipts, voids etc.

Date of Corrective Action: September 21, 2012

Responsible Person(s): Lucille Jose, Finance Manager

6. Information Systems

Background

Courts make wide use of information technology (IT) to support their operations. For example, courts use IT services to operate and maintain automated case management systems, accounting systems, and local area networks. Since information systems are integral to daily court operations, courts must maintain their systems in proper working order, protect their systems from interruptions, and establish a systems recovery plan should it experience an unexpected system mishap. Courts must also implement controls to prevent unauthorized access to sensitive and confidential information, and to protect the integrity of its information.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with information systems. A description of these accounts and audit procedures we performed to review the Court's information systems controls follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures				
943201 IT MAINTENANCE	29,214	97,011	(67,797)	-70%
* 943200 - IT MAINTENANCE	29,214	97,011	(67,797)	-70%
943301 IT COMMERCIAL CONTRACTS	248,817	243,969	4,848	2%
* 943300 - IT COMMERCIAL CONTRACT	248,817	243,969	4,848	2%
943501 IT REPAIRS & SUPPLIES	-	85	(85)	-100%
943502 IT SOFTWARE & LICENSING F	267,226	258,276	8,950	3%
* 943500 - IT REPAIRS/SUPPLIES/LICE	267,226	258,361	8,865	3%
** INFORMATION TECHNOLOGY (IT) TOTAL	545,258	599,341	(54,083)	-9%

We reviewed various IT controls through interviews with Court management, inspection of the server room, and review of documents. Some of the primary reviews and tests include:

- Systems backup and data storage procedures.
- Continuity and recovery procedures in case of natural disasters and other disruptions to Court operations.
- Logical access controls, such as user account management.
- Physical security controls, such as server room access.
- Controls over access to DMV records.

Lastly, we reviewed automated calculation and distribution of fees, fines, forfeitures, restitutions, penalties, and assessments for sample criminal and traffic violations to determine whether the Court correctly distributed funds to the appropriate government entities. The Court relies on its Sustain CMS to distribute its collections to the appropriate government accounts. At the time of our review, the Court uses the AOC's data center to house its CMS. The Court relies on the AOC and its CMS vendor and consultant to update systems distribution tables, while it is responsible for updating journal codes for local fees.

The following issues were considered significant enough to bring to management's attention. Additional minor issues may be contained in Appendix A.

6.1 The Court Did Not Properly Distribute Certain Collections in Accordance with Statutes and Guidelines

Background

State statutes and local ordinances govern the distribution of the fees, fines, penalties, and other assessments that courts collect. Courts rely on the *Manual of Accounting and Audit Guidelines for Trial Courts – Appendix C* issued by the State Controller's Office and the *Uniform Bail and Penalty Schedule* issued by the Judicial Council to calculate and distribute these court collections to the appropriate State and local funds. Courts use either an automated system, manual process, or a combination of both to perform the often complex calculations and distributions required by law.

Issues

To determine whether the Court correctly calculated and distributed collections, we reviewed the distributions calculated by the Court's CMS, Sustain, of selected cases with violations that the Court disposed during calendar years 2011 and 2012. In total, we reviewed 15 cases of the following case types:

- **Traffic Infraction (14 total)** – Speeding (4), Red Light (4), Child Seat (2), Unattended Child (1), Proof of Insurance (2), and Proof of Correction (1).
- **Non-Traffic Infraction (1 total)** – Fish & Game (1)

We did not review the distributions of any misdemeanor or felony cases because the County is responsible for distributing proceeds from these cases.

Our review of the calculated distributions noted the following calculation and distribution errors:

1. The Court did not apply the GC 68090.8 – 2% deposit for automation to the following assessments and, as a result, understated its associated distribution to the State:
 - The PC 1463.22 - special base fine allocations totaling \$30.50 for the Proof of Insurance cases we selected to review.
 - The FG 12021 – secret witness penalty assessment for the Fish & Game case we selected to review.
2. For the traffic school case reviewed in which the defendant had a prior vehicle code conviction, the Court inappropriately charged a VC 40508.6(a) – administrative assessment. Specifically, VC 40508.6(a) states that the administrative assessment shall be payable at the time of payment of a fine or when bail is forfeited for any subsequent vehicle code violations. Therefore, the Court may not charge an administrative assessment for a traffic school case because there is no fine payment as all fines are converted into a fee, and there is no bail forfeiture.

3. For the traffic school cases reviewed, the Court incorrectly distributed the GC 76000.10 - emergency medical air transportation (EMAT) penalty assessment rather than allocating the amount to the VC 42007 – traffic violator school (TVS) fee. As a result, it overstated its distribution to the State EMAT fund and understated distribution to the County general fund, which subsequently affects the County's 50/50 maintenance of effort (MOE) reporting.
4. The Court incorrectly performed calculations and distributions related to Red Light traffic school cases as follows:
 - It did not apply the VC 42007.3 - 30 percent allocation to the EMAT penalty assessment and the GC 76000.5 – additional penalty. As a result, it understated distribution to the general fund of the arresting agency's government.
 - It incorrectly distributed the GC 76104 – emergency medical services (EMS) and GC 70372(a) – state court construction penalty assessments as net of 30 percent. Although it correctly applied the 30 percent allocation to these penalties, it should still distribute 100 percent of the penalties (not 70 percent) as stated in VC 42007 (b). Specifically, VC 42007(b) requires that GC 76104 – EMS, GC 76000.5 – additional, and GC 70372 – state court construction penalty assessments shall equal the amounts that would have been collected based on their respective statutes. As a result, it overstated its distribution to the County general fund, which subsequently affects the County's 50/50 MOE reporting, and understated distributions to the local EMS and State court facilities construction funds.
5. For the Red Light bail forfeiture cases reviewed, the Court did not apply the PC 1463.11(a) - 30 percent allocation to the EMAT penalty assessment. As a result, it overstated its distribution to the State EMAT fund and understated its distribution to the general fund of the arresting agency's government.

Recommendations

To improve the accuracy of its calculations and distributions of Court collections, the Court should consider the following:

1. Configure its CMS to apply the 2% automation distribution to the special base fine allocations totaling \$30.50 for Proof of Insurance cases, and the secret witness penalty assessment for Fish & Game cases.
2. Discontinue charging the VC 40508.6(a) administrative assessment for traffic school cases.
3. Configure its CMS to allocate the EMAT penalty assessment to the VC 42007 –TVS fee for traffic school cases.

4. Analyze its CMS to ensure that it includes the EMAT and additional penalty assessments when calculating the 30 percent allocation to the arresting agency's general fund for Red Light traffic school cases.

Additionally, ensure that its CMS distributes the entire amount of the EMS and state court construction penalty assessments for Red Light traffic school cases.

5. Analyze its CMS to ensure that it includes the EMAT penalty assessment when calculating the 30 percent allocation to the arresting agency's general fund for Red Light bail forfeiture cases.

Superior Court Response By: Lucille Jose Date: 08/13/13

Issue 1: The court agrees that GC 68090.8 – 2% deposit for automation was not applied to distributions associated with PC 1463.22 and FG 12021. Lucille Jose, Finance manager will submit a request to CMS vendor to request that configurations be updated to distribute the 2% automation for both GC 68090.8 and FG 12021 to court vendor on August 16, 2013.

Issue 2: The court agrees that it inappropriately charged the \$10 administrative assessment pursuant to VC 40508.6. Lucille Jose will submit a request to the AOC asking that Auto Assess be reconfigured to suppress the \$10 administrative assessment by September 30, 2013.

Issue 3: The court agrees that it overstated the Emergency Medical Air Transportation (EMAT) penalty assessments on VC 42007 – Traffic Violator School (TVS). The court's CMS was updated to distribute the TVS penalty assessment correctly to the County general fund in November 2012 by court vendor Donna Argo.

Issue 4: The court agrees that calculations and distributions for Red Light traffic school cases were incorrectly performed by CMS. The court's CMS – Sustain is programmed to perform statutory distributions through a process called Auto Assess. Major programming changes in Sustain for Auto Assess are managed and implemented by the Administrative Office of the Courts (AOC). Lucille Jose will submit a request to the AOC asking that Auto Assess be reconfigured to correctly calculate and distribute fines on Red Light traffic school cases by August 30, 2013.

Issue 5: The court agrees that it did not apply PC 1463.11(a) – 30% allocation to the EMAT Penalty assessment correctly and overstated the distribution to the EMAT penalty assessment. The court's CMS was updated to distribute PC 1463.11(a) 30% allocation to the general fund for the arresting agency in November 2012 by court vendor Donna Argo.

7. Banking and Treasury

Background

GC 77009 authorizes the Judicial Council to establish bank accounts for trial courts to deposit trial court operations funds and other funds under the courts' control. The FIN Manual, FIN 13.01, establishes the conditions and operational controls under which trial courts may open these bank accounts and maintain funds. Trial courts may earn interest income on all court funds wherever located. The Court receives interest income earned on funds deposited with the AOC Treasury and in local bank accounts. It deposits in AOC-established bank accounts allocations, reimbursements, and other revenue sources for court operations; certain trust funds; and agency funds to be distributed to other government entities. It also has some trust funds deposited in locally managed bank accounts.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with Banking and Treasury. A description of these accounts and audit procedures we performed to review the Court's banking procedures follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Assets				
100000 POOLED CASH	2,529,694	317,252	2,212,442	697%
100001 TRUST CASH IN OPS	28,945	-	28,945	-
100017 OPS OUTGOING EFT	-	16,997	(16,997)	-100%
100025 DISB CHECK-OPERATIONS	(373,258)	(1,628,025)	1,254,767	77%
100026 DISB CHECK-TRUST	(28,945)	(33,509)	4,564	14%
100027 DISB OUTGOING EFT	(5,870)	-	(5,870)	-
100132 DIST CREDIT CARD DEPOSIT	4,987	-	4,987	-
100165 TRUST DISBURSEMENT CHECK	(87,682)	-	(87,682)	-
114000 CASH-REVOLVING	25,000	25,000	-	0%
117000 CASH DISTRIBUTION ACCOUNT	-	178,820	(178,820)	-100%
117002 CASH DISTRIBUTION IN-TRAN	-	5,581	(5,581)	-100%
118000 CASH-TRUST ACCOUNT	-	761,106	(761,106)	-100%
119001 CASH ON HAND - CHANGE FUN	4,850	4,850	-	0%
120002 CASH OUTSIDE OF AOC	166,996	878,103	(711,107)	-81%
120050 SHORT TERM INVESTMENTS-LA	6,767,461	8,461,708	(1,694,248)	-20%
120051 SHORT TERM INVESTMENTS-CA	3,596,710	3,076,375	520,335	17%
*** Cash and Cash Equivalents	12,628,888	12,064,259	564,629	5%

Revenues

823002 ESCHEATMENT REVENUE	(343)	-	343	-
825010 INTEREST INCOME	(32,427)	(50,359)	(17,933)	-36%

The Trial Court Trust and Treasury Services unit provides various banking and treasury services to the Court for funds on deposit with the AOC Treasury. These services include but are not limited to investing trial court funds, performing monthly bank account reconciliations, and providing periodic reports to trial courts and other stakeholders. Therefore, we only performed a high level review of the Court's banking and treasury procedures, including the following:

- Bank account reconciliation procedures.
- Procedures for opening and closing bank accounts.
- Approval requirements for accepting credit and debit card payments.
- Procedures to safeguard the check supply and track issued checks
- Segregation of banking duties.
- Procedures to identify and escheat funds.

We identified a minor issue associated with this section that is contained in Appendix A.

8. Court Security

Background

Appropriate law enforcement services are essential to trial court operations and public safety. Accordingly, each court enters into a memorandum of understanding (MOU) with the county sheriff for court security services, such as bailiff and perimeter security services, that specifies the level of service to be provided. The Criminal Justice Realignment Act of 2011 shifted funding for sheriff-provided court security services from the courts to counties, so courts no longer reimburse counties for these expenditures. The Court entered into an MOU with the County Sheriff for bailiff services, and contracts with a private security vendor to provide perimeter security services, including entrance screening services.

Additionally, each court must prepare and implement a comprehensive court security plan that addresses the sheriff's plan for providing public safety and law enforcement services to the court in accordance with the Superior Court Law Enforcement Act of 2002. The AOC Emergency Response and Security (ERS) unit provides courts with guidance on developing a sound court security plan and on other court security best practices.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with court security. A description of these accounts and audit procedures we performed to review the Court's court security practices follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures				
934504 PERIMETER SEC-CONTRCT (OT	718,598	810,023	(91,425)	-11%
934510 COURTROOM SECURITY-SHERIF	-	3,275,505	(3,275,505)	-100%
934512 ALARM SERVICE	1,821	7,333	(5,512)	-75%
* 934500 - SECURITY	720,419	4,092,862	(3,372,442)	-82%
941101 SHERIFF - REIMBURSEMENTS	820	2,840	(2,020)	-71%
* 941100 - SHERIFF	820	2,840	(2,020)	-71%

We reviewed the Court's security controls through interviews with Court management, observation of security conditions, and review of documents. We also reviewed its court security services agreement and sample court security invoices to determine whether costs billed were in accordance to the service agreement.

We identified minor issues associated with this section that are contained in Appendix A.

9. Procurement

Background

Judicial branch entities including superior courts are required to comply with provisions of the Public Contract Code (PCC) that are applicable to state agencies and departments related to the procurement of goods and services. In accordance with PCC 19206, the Judicial Council adopted and published the Judicial Branch Contracting Manual to incorporate procurement and contracting policies and procedures that judicial branch entities must follow. The manual became effective on October 1, 2011 and superseded FIN Manual policies and procedures for procurement (FIN 6.01) and contracts (FIN 7.01 through 7.03). Judicial branch entities must conduct competitive procurements in a manner that promotes open, fair, and equal competition among prospective bidders unless the purchase meets one of the criteria of a non-competitive procurement, such as purchases under \$5,000, emergency purchases, and sole source procurements. Additionally, the type of competition will vary depending on the type of goods or services to be procured, as well as the value of the procurement.

We reviewed the Court's procurement practices to determine whether purchasing, approval, receipt, and payment roles are sufficiently segregated. We also reviewed sample purchases to determine whether the Court obtained approvals from authorized individuals and followed open and competitive procurement practices provided in the Judicial Branch Contracting Manual and the FIN Manual where appropriate. Additionally, we reviewed sample purchase card transactions to assess compliance with applicable requirements for purchase cards.

The following issues were considered significant enough to bring to management's attention. Additional minor issues may be contained in Appendix A.

9.1 Although Court has Well-Established Controls over Procurement Activities, Some Practices were Inconsistently Followed

Background

Judicial branch entities including superior courts are required to comply with provisions of the Public Contract Code (PCC) that are applicable to state agencies and departments related to the procurement of goods and services. In accordance with PCC 19206, the Judicial Council adopted and published the Judicial Branch Contracting Manual to incorporate procurement and contracting policies and procedures that judicial branch entities must follow. The manual became effective on October 1, 2011 and superseded FIN Manual policies and procedures for procurement (FIN 6.01) and contracts (FIN 7.01 through 7.03).

PCC 19026 requires the Judicial Council to include in the Judicial Branch Contracting Manual that each judicial branch entity shall adopt a Local Contracting Manual. The contents of each Local Contracting Manual must be "consistent with" the PCC, "substantially similar" to the provisions contained in the State Administrative Manual and the State Contracting Manual, and consistent with the Judicial Branch Contracting Manual. Additionally, each judicial branch entity must identify individual(s) with responsibility and authority for procurement and

contracting activities, and may include policies and procedures governing its procurement and contracting activities in its Local Contracting Manual.

Chapter 4 of the Judicial Branch Contracting Manual covers competitive solicitation procedures. Judicial branch entities must conduct competitive procurements in a manner that promotes open, fair, and equal competition among prospective bidders. Generally speaking, a procurement must be competitive unless it falls into one of the categories covered in Chapter 5 of the manual. Additionally, the type of competition will vary depending on the type of goods or services to be procured, as well as the value of the procurement. Chapter 4 discusses procedures on identifying prospective bidders, developing and advertising solicitations, handling bids submitted by vendors, and evaluating and selecting vendors.

Chapter 5 of the manual identifies circumstances where judicial branch entities may procure goods and services without going through a competitive process, and the processes required in conducting these procurements. Examples of non-competitive procurement categories include but are not limited to purchases under \$5,000, emergency purchases, and sole source procurements. Judicial branch entities may not split a single transaction into a series of transactions for the purpose of evading competitive solicitation requirements. A non-competitive emergency purchase may be performed when the immediate acquisition is necessary for the protection of the public health, welfare, or safety; and must be approved in writing by the approving authority or a designated delegate. A sole source procurement may be performed only if either the goods and/or services to be purchased are the only goods and/or services that meet the entity's needs, or a grant application submittal deadline does not permit the time needed for a competitive procurement of services. Additionally, repeat sole source authorizations may be granted where there is no viable competition, or competitive bidding cannot be completed using reasonable efforts before the time such goods and/or services are required. Both sole source requests and repeat sole source authorizations must be approved by the sole source approver.

Chapter 9, section 9.2 of the manual provides requirements for the use of purchase cards, which are typically used only for the procurement of goods, such as library purchases, subscriptions, office supplies, and minor equipment. Purchase cards may only be used for purchases with a maximum of \$1,500 per transaction, and a suggested daily limit of \$5,000. Alternative procedures should be documented, incorporated into the court's Local Contracting Manual, and distributed to court personnel. All procurements executed using a purchase card should be initiated by an approved purchase requisition. Purchase card holders are responsible for providing documentation in the form of requisitions and receipts for purchases made using the purchase card. Purchase cards may be used only for official judicial branch entity business; personal use is prohibited. Travel expenses may be paid by a court credit card that is used only for travel expenses, or centrally purchased using a court travel account.

Issues

We interviewed Court staff responsible for procurement activities and reviewed selected fiscal year 2011 – 2012 procurements and purchase card transactions to evaluate the Court's procurement controls and compliance with Judicial Branch Contracting Manual and Local Contracting Manual requirements. Although the Court has documented practices and well-

established internal controls over its procurement activity, we identified the following instances of non-compliance:

1. For 3 of 19 non-purchase card procurements reviewed, the Court did not set up a purchase order on the Phoenix Financial System to encumber funds for the contracted services. Specifically, FIN 5.01, 6.6 requires courts to post any encumbrance amount over \$500 in the accounting system to ensure that adequate amounts are reserved for the contemplated expenditures. The mechanism for encumbering funds in the Phoenix Financial System is through establishment of a purchase order. For the cases noted, the Court entered into a one year contract for dependency counsel services where it agreed to pay a fixed amount, but did not encumber the contracted amount at the beginning of the fiscal year. Similarly, for a second month-to-month contract with its Family Court Services Liaison, the Court agreed to pay a fixed monthly rate, yet it did not encumber an annualized amount. Although the third contract for dependency counsel services was a fee-for-service contract, the Court did not encumber an estimated amount it expected to spend for the fiscal year.
2. Three of four sole source procurements reviewed that exceeded \$5,000 were not supported by sole source request forms. Specifically, the Court renewed its annual maintenance agreements with two existing vendors for its telephone system and automated payment system, respectively. The Court also purchased computer equipment without obtaining competing quotes, but noted this was the only vendor that offered customized computer equipment. Although the Court may have reasonable justifications for these sole source procurements, it did not document its justification and pre-approval by the PJ or written delegate on a sole source request form as required by its Local Contracting Manual.
3. The Court did not engage in competitive procurement practices for 1 of 19 procurements reviewed that were required to be purchased competitively. Specifically, the Court entered into a multi-year lease agreement for copiers that exceeded \$27,000 but could not provide documentation to support that it attempted to obtain competitive quotes before making the purchase. The Judicial Branch Contracting Manual requires courts to prepare a request for quote when purchasing IT goods of more than \$5,000 but less than \$100,000.
4. For 2 of 19 non-purchase card procurements selected for review, the Court did not prepare a purchase requisition prior to the purchase. Of the remaining 17 non-purchase card procurements, the associated requisitions for 2 procurements did not contain approval signatures from authorized individuals. Although the vendor agreements for these procurements were approved by the CEO, the purchase requisition is a separate process that takes place prior to the purchase to document that request for goods or services were approved by the appropriate approval level.

Additionally, for another 3 of 9 purchase card transactions selected for review, the purchase requisitions on file were approved after the purchases were made. The Court informed us that the original pre-approved requisition for one purchase card procurement

was destroyed in error and that it re-created the requisition on file after the purchase had already been made. For a second purchase card procurement, the Court informed us that this was an emergency purchase that was verbally pre-approved by an authorized Court employee, but the individual did not approve the formal requisition until after the purchase had been made.

5. One of nine purchase card procurements selected for review exceeded the \$1,500 per transaction limit. Specifically, the Court purchased computer equipment totaling almost \$8,000 from an online vendor. Since using purchase cards is a more streamlined method to make purchases, the Court needs to establish additional internal controls over purchase cards, including restricting purchases to under \$1,500 per transaction.

Recommendations

To ensure that it can demonstrate its prudent use of public funds when procuring goods and services, the Court should consider strengthening its procurement practices as follows:

1. Establish purchase orders in the Phoenix Financial System to encumber funds for procurements over \$500 so that it may monitor these commitments and related payments on its accounting system to ensure that it has sufficient funds to pay for these procurements. For procurements with no set dollar amounts, the Court should encumber an estimated amount for the fiscal year.
2. Ensure that requests to purchase goods or services over \$5,000 from a sole source vendor be supported by a sole source request form. Specifically, the sole source request form should document a reasonable justification for not engaging in competitive procurement practices that meets the sole source criteria provided in the Judicial Branch Contracting Manual. Additionally, the sole source request form should be approved by the PJ or written delegate prior to the purchase.
3. Require purchases exceeding \$5,000 that do not qualify for non-competitive procurement to be purchased using appropriate competitive procurement methods in accordance with the Judicial Branch Contracting Manual. Specifically, the Court should solicit bids or quotes from various vendors by issuing a request for quote, invitation to bid, or request for proposal depending on the type of goods or services, and the total dollar amount of the purchase. The Court may also make purchases through existing leveraged procurement agreements.
4. Prepare purchase requisitions to document requests for purchases of goods or services, and prior written approval by the appropriate approval level in accordance with its Procurement Approval Threshold Matrix.
5. Ensure that purchase cards are only used to make purchases of goods under \$1,500 per transaction for court business. Purchases exceeding \$1,500 should be made through traditional procurement methods.

Issue 1: The Court is in agreement.

The Court will review the Trial Court Financial Policies and Procedures FIN 5.01 section 6.6 with finance staff.

Date of Corrective Action: 9-30-13.

Responsible Person(s): Felipe Navarro, Assistant Finance Director.

Issue 2: The Court is in agreement.

The Court will review the JBCM Chapter 5 and the JBCM Local Contracting Manual with finance staff.

Date of Corrective Action: 10-31-13.

Responsible Person(s): Felipe Navarro, Assistant Finance Director.

Issue 3: The Court is in agreement.

The Court will review the JBCM Chapter 4a-c and the JBCM Local Contracting Manual with all staff involved in procurement.

Date of Corrective Action: 12-31-13

Responsible Person(s): Felipe Navarro, Assistant Finance Director.

Issue 4: The Court is in agreement.

The Court will review the JBCM Chapter 5 and the JBCM Local Contracting Manual with finance staff.

Date of Corrective Action: 10-31-13

Responsible Person(s): Lucille Jose, Finance Manager; Felipe Navarro, Assistant Finance Director.

Issue 5: The Court is in agreement.

The Court will ensure that purchase cards are only used to make purchases of goods under \$1,500 per transaction for court business. Purchases exceeding \$1,500 will be made through traditional procurement methods.

Date of Corrective Action: Immediately

Responsible Person(s): Felipe Navarro, Assistant Finance Director.

10. Contracts

Background

As described in Section 9 of the audit report related to procurement above, the Judicial Council adopted and published the Judicial Branch Contracting Manual to incorporate procurement and contracting policies and procedures that judicial branch entities must follow. The manual became effective on October 1, 2011 and superseded FIN Manual policies and procedures for procurement (FIN 6.01) and contracts (FIN 7.01 through 7.03). For instance, Chapter 8 of the Judicial Branch Contracting Manual identifies processes applicable to preparing and approving contracts, typical contracts and contract-related documents, and certain provisions required by law or recommended for inclusion in a contract or contract-related document. Furthermore, Chapter 11 of the manual describes the requirements and recommended practices associated with contract administration.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with contracts. A description of these accounts and audit procedures we performed to review the Court's contracting practices follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures				
938301 ACCOUNTING SERVICES	37,907	36,639	1,268	3%
938401 GENERAL CONSULTANTS & PRO	299,176	343,915	(44,739)	-13%
938404 ADMINISTRATIVE SERVICE	380,401	365,351	15,050	4%
938409 ARCHIVING/IMAGING MANAGEM	4,030	4,221	(191)	-5%
938411 TRAFFIC SCHOOL MONITORING	154,362	172,892	(18,530)	-11%
938420 GENERAL CONSULTANTS - LOD	-	374	(374)	-100%
938421 GENERAL CONSULTANTS - MIL	-	906	(906)	-100%
* 938300 - GENERAL CONSULTANT AND P	875,876	924,297	(48,421)	-5%
938503 COURT INTERPRETERS - REGI	10,486	13,863	(3,377)	-24%
938504 COURT INTERPRETERS - CERT	182,324	108,753	73,570	68%
938505 COURT INTERPRETERS - NONR	30,098	16,902	13,196	78%
938506 COURT INTERPRETERS - NONC	59,265	109,307	(50,041)	-46%
938507 COURT INTERPRETERS - AMER	6,750	16,850	(10,100)	-60%
938509 COURT INTERPRETER - MILEA	53,428	54,003	(575)	-1%
938511 COURT INTERPRETER - LODGI	463	643	(180)	-28%
* 938500 - COURT INTERPRETER SERVIC	342,813	320,321	22,492	7%
938601 COURT REPORTERS SERVICES	37,800	87,600	(49,800)	-57%
* 938600 - COURT REPORTER SERVICES	37,800	87,600	(49,800)	-57%
938701 COURT TRANSCRIPTS	272,556	200,088	72,468	36%
* 938700 - COURT TRANSCRIPTS	272,556	200,088	72,468	36%
938801 DEPENDENCY COUNSEL CHRGS	104,457	94,919	9,538	10%
938802 DEPENDENCY COUNSEL CHRGS	189,536	222,443	(32,907)	-15%
938803 COURT-APPOINTED COUNSEL C	-	6,395	(6,395)	-100%
* 938800 - COURT APPOINTED COUNSEL	293,993	323,756	(29,764)	-9%
938905 FINGERPRINT PROCESSING	676	656	20	3%
* 938900 - INVESTIGATIVE SERVICES	676	656	20	3%

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures (continued)				
939001 COURT-ORDERED INVESTIGATI	193,625	163,770	29,855	18%
939002 PSYCHIATRIC EVALUATIONS	5,900	4,875	1,025	21%
939004 DOCTOR	325	1,550	(1,225)	-79%
939017 EVALUATION MENTAL COMPETE	41,250	46,375	(5,125)	-11%
939018 MENTAL HEALTH HEARING OFF	3,600	3,600	-	0%
939020 PROBATE EVALUATIONS & REP	94,600	129,075	(34,475)	-27%
939021 NARCOTIC ADDICTION EVALUA	325	650	(325)	-50%
* 939000 - COURT ORDERED PROFESSION	339,625	349,895	(10,270)	-3%
939101 MEDIATORS/ARBITRATORS	172,733	152,514	20,219	13%
* 939100 - MEDIATORS/ARBITRATORS	172,733	152,514	20,219	13%
** CONTRACTED SERVICES TOTAL	2,336,071	2,359,128	(23,056)	-1%

Expenditures – County-provided services

942801 COUNTY - EDP SERVICES	19,468	37,669	(18,201)	-48%
* 942100 - COUNTY-PROVIDED SERVICES	19,468	37,669	(18,201)	-48%

We evaluated the Court's contract administration and monitoring practices through interviews with Court management and staff, and review of contract files. We also reviewed selected contracts to determine whether they contain adequate terms and conditions to protect the Court's interest.

We reviewed MOUs entered into with the County to determine whether they are current and contain minimum required terms and conditions. Additionally, we performed a trend analysis of county-provided revenue and services expenditures for the last three fiscal years to determine whether they are covered by current MOUs and whether the Court has sufficient procedures to monitor and control these costs. We also reviewed selected invoices to determine whether the services billed by the County were allowable, reasonable, sufficiently itemized, and supported.

We identified minor issues associated with this section that are contained in Appendix A.

11. Accounts Payable

Background

The FIN Manual provides uniform guidelines for processing vendor invoices and in-court service provider claims. Trial court personnel must route invoices and claims submitted by vendors and court service providers to trial court accounts payable staff for processing. The accounts payable staff must process the invoices in a timely fashion. While processing for payment, they must verify that amounts billed match purchase agreements, and authorized court personnel approved the invoice to indicate that goods were received or services were provided.

In addition, superior court judges and employees may be required to travel in the course of performing their official duties, and may occasionally conduct official court business during a meal period. Courts may reimburse its judges and employees for their reasonable and necessary travel expenses incurred while traveling on court business only within maximum reimbursement limits. Courts may also pay vendors' invoices or reimburse its judges and employees for the actual cost of business meals only when related rules and limits are met.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with accounts payable. A description of these accounts and audit procedures we performed to review the Court's accounts payable procedures follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures				
920302 BANK FEES	16,578	11,997	4,581	38%
920306 PARKING FEES	1,200	3,170	(1,970)	-62%
920399 FEES/PERMITS	1,765	30	1,735	5784%
* 920300 - FEES/PERMITS	19,543	15,197	4,345	29%
920601 MISCELLANEOUS OFFICE SUPP	31,010	72,202	(41,191)	-57%
920603 FIRST AID/SAFETY SUPPLIES	599	655	(56)	-9%
920608 TONER	67,423	40,686	26,737	66%
920613 RUBBER STAMP	5,762	2,573	3,190	124%
920615 BOTTLED WATER	5,552	6,414	(862)	-13%
920622 COPY PAPER	29,896	7,398	22,497	304%
920632 AWARDS (SERVICE RECOGNITI	395	-	395	-
* 920600 - OFFICE EXPENSE	140,637	129,927	10,710	8%
921501 PERSONNEL ADS	628	5,795	(5,167)	-89%
921599 ADVERTISING	3,402	2,623	779	30%
* 921500 - ADVERTISING	4,029	8,418	(4,389)	-52%
921704 SPECIAL EVENTS	4,672	9,732	(5,061)	-52%
921799 MEETINGS, CONFERENCES, EX	5,172	11,292	(6,120)	-54%
* 921700 - MEETINGS, CONFERENCES, E	9,843	21,024	(11,181)	-53%
922399 LIBRARY PURCHASES AND SUB	59,175	73,677	(14,503)	-20%
* 922300 - LIBRARY PURCHASES AND SU	59,175	73,677	(14,503)	-20%

922702 COPIERS-RENTAL-LEASE	28,045	69,795	(41,749)	-60%
922705 POSTAGE MACHINE-RENTAL-LE	5,340	7,536	(2,196)	-29%
* 922700 - EQUIPMENT RENTAL/LEASE	33,385	77,331	(43,946)	-57%
General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures – continued				
922899 OFFICE EQUIPMENT MAINTENA	1,200	67,472	(66,272)	-98%
* 922800 - EQUIPMENT MAINTENANCE	1,200	67,472	(66,272)	-98%
922999 EQUIPMENT REPAIRS	1,697	161	1,536	956%
* 922900 - EQUIPMENT REPAIRS	1,697	161	1,536	956%
923905 COURIER SERVICE	26,214	27,295	(1,081)	-4%
923908 SHREDDING SERVICE	12,639	14,542	(1,904)	-13%
923910 DEMOLITION: SALVAGE		16,130	(16,130)	-100%
923914 MOVING/TRANSPORT SERVICE	24,053	46,634	(22,581)	-48%
923999 GENERAL EXPENSE-SERVICE	6,491	8,909	(2,418)	-27%
* 923900 - GENERAL EXPENSE - SERVIC	69,396	113,510	(44,114)	-39%
924502 COURT FORMS	24,669	36,351	(11,682)	-32%
924506 CASE FILE JACKETS	43,501	35,515	7,986	22%
924507 LABELS	429	-	429	-
924599 PRINTING	1,965	4,140	(2,174)	-53%
* 924500 - PRINTING	70,564	76,006	(5,442)	-7%
925101 TELECOMMUNICATIONS	117,238	107,864	9,374	9%
925102 INTERNET ACCESS PROVIDER		178	(178)	-100%
925103 CELL PHONES/PAGERS	20,113	27,888	(7,775)	-28%
* 925100 - TELECOMMUNICATIONS	137,351	135,931	1,420	1%
926101 STAMPS	47,254	47,600	(347)	-1%
926199 STAMPS, STAMPED ENVELOPES	80,000	80,000	-	0%
* 926200 - STAMPS, STAMPED ENVELOPE	127,254	127,600	(347)	0%
928801 INSURANCE	912	924	(12)	-1%
928802 VEHICLE INSURANCE	3,239	1,399	1,840	132%
928804 BUILDING CONTENTS INSURAN	5,936	8,382	(2,446)	-29%
* 928800 - INSURANCE	10,087	10,705	(618)	-6%
935301 JANITORIAL SERVICES	186,374	205,316	(18,942)	-9%
935303 JANITORIAL CLEANING SUPPL	21,754	22,792	(1,038)	-5%
* 935300 - JANITORIAL	208,128	228,108	(19,980)	-9%
935401 REPAIRS	972	425	547	129%
* 935400 - MAINTENANCE AND SUPPLIES	972	425	547	129%
935504 EXTERMINATION	-	255	(255)	-100%
* 935500 - GROUNDS	-	255	(255)	-100%
935601 ALTERATION & IMPROVEMENTS	2,836	54,819	(51,983)	-95%
* 935600 - ALTERATION	2,836	54,819	(51,983)	-95%
935701 SIGNS & RELATED SUPPLIES	1,154	44,893	(43,739)	-97%
935799 OTHER FACILITY COSTS - GO	1,265	4,117	(2,852)	-69%
* 935700 - OTHER FACILITY COSTS - G	2,420	49,011	(46,591)	-95%

936101 UTILITIES	328	-	328	-
936102 ELECTRICITY	24	261	(237)	-91%
936103 NATURAL GAS	-	75	(75)	-100%
* 936100 -UTILITIES	352	336	16	5%

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		

Expenditures - continued

952401 FUEL FOR VEHICLES	9,410	8,427	983	12%
952499 VEHICLE OPERATIONS	5,278	3,816	1,463	38%
* 952300 - VEHICLE OPERATIONS	14,688	12,243	2,445	20%
965101 JURORS - FEES	97,577	53,992	43,585	81%
965102 JURORS - MILEAGE	35,548	22,703	12,846	57%
965199 JUROR COSTS	50,000	50,000	-	0%
* 965100 - JUROR COSTS	183,125	126,695	56,430	45%

972100 JUDGMENTS, SETTLEMENTS, &	1,503	250	1,253	501%
* 972001 - JUDGMENTS, SETTLEMENTS A	1,503	250	1,253	501%
972299 GRAND JURY COSTS	7,909	17,546	(9,637)	-55%
* 972200 - GRAND JURY COSTS	7,909	17,546	(9,637)	-55%

Expenditures – travel

929205 PER-DIEM - JUDICIAL - IN	2,694	6,368	(3,675)	-58%
929299 TRAVEL IN STATE	19,228	17,994	1,234	7%
* 929200 - TRAVEL- IN STATE	21,921	24,362	(2,441)	-10%
** TRAVEL IN STATE TOTAL	21,921	24,362	(2,441)	-10%
931199 TRAVEL OUT OF STATE	1,564	2,137	(573)	-27%
* 931100 - TRAVEL OUT OF STATE	1,564	2,137	(573)	-27%
** TRAVEL OUT OF STATE TOTAL	1,564	2,137	(573)	-27%

To evaluate the Court's compliance with invoice and claim processing procedures specified in the FIN Manual, we interviewed Court staff who perform accounts payable activities, and reviewed sample invoices and claims. We also assessed its compliance with additional requirements provided in statute or policy for processing court transcripts claims, contract interpreter claims, and jury per diems and mileage reimbursements. Furthermore, we reviewed sample travel expense claims and business meal expenditures to assess compliance with *AOC Travel Reimbursement Guidelines* and *Business-Related Meals Reimbursement Guidelines* provided in the FIN Manual.

The following issues were considered significant enough to bring to management's attention. Additional minor issues may be contained in Appendix A.

11.1 Certain Business-Related Meals Either Did Not Contain Advanced Approval or were Inappropriate

Background

FIN 8.05 defines the rules and limits trial courts must observe when arranging or claiming reimbursement for meals connected to official court business. To be reimbursable, these business meals must have the written advance approval of the presiding judge (PJ) or authorized designee. Section 6.2 states in relevant part:

All business meals must be supported by an original receipt, reflecting the actual costs incurred and a completed, approved business-related meal form, memo, or e-mail authorizing the expenditure in advance. In compliance with Internal Revenue Service regulations the business related-meal expense form, memo, or e-mail will include the following information:

- a. Date of the business meal(s).
- b. Scheduled start and end time of the meeting.
- c. Statement explaining the business purpose of the meeting.
- d. Category and duration of business meal. Example: Breakfast 8:00- 8:30 (30 min.).
- e. Location/place of the business meal.
- f. Copy of the formal agenda, if applicable.
- g. List of expected attendees, their titles and affiliations.

Business meal expenses not approved in advance by the PJ or authorized designee will be considered a personal expense and will not be reimbursed or paid.

The treatment of business meal expenses varies depending on when, where, and how many people are involved with the meal or function. For further information regarding business meals, please see the following sections in FIN 8.05:

- 6.3 Business Meal Reimbursement via a Travel Expense Claim
- 6.4 Group Business Meals
- 6.5 Authorized Business Meal Timeframes
- 6.6 Authorized Business Meal Rates
- 6.7 Requests for Exceptions to Business Expense Guidelines
- 6.8 Unallowable Business Meal Expenses

Issues

To determine whether the Court followed the business meal expense guidelines set forth in the FIN Manual, we interviewed appropriate Court staff and reviewed selected business-related meal expenses paid in fiscal year 2011–2012. We identified the following areas of non-compliance:

1. Four of seven business-related meal authorization request forms reviewed were approved after the expenses have been incurred. However, the FIN Manual requires written advanced approval of the PJ or authorized designee.
2. The Court used court funds to hold a years of service celebration for a court official shortly before his retirement. Specifically, it purchased cake and utensils for Court employees at each court location. This event appears to celebrate the individual's

retirement and therefore is an inappropriate use of court funds. FIN 8.05, 6.8 (1) allows courts to pay or reimburse the costs of a group meal to recognize an individual for his or her work-related accomplishments on behalf of the court or in connection with a purpose that is part of the court's mission, but not for a group meal intended to be part of a retirement event as this is considered a personal expense.

3. For one of seven business-related meal requests reviewed, the Court paid for a breakfast group meal that did not meet the authorized business meal timeframe. Although the business-related meal request form indicated that the event would start at 8:00 a.m., the agenda attached to the request indicated that the event started at 10:00 a.m. FIN 8.05, 6.5 that provides authorized business meal timeframes specify that breakfast is permissible only if the actual business function starts at or before 8:30 a.m. and lasts at least three hours.

Recommendations

To ensure it complies with the required AOC travel and business meal policies and procedures, the Court should consider the following:

1. Ensure that permissible business-related meals are approved in writing by the PJ or authorized designee before incurring expenses for the meal.
2. Discontinue using court funds to pay for retirement events as they are considered to be personal expenses.
3. Ensure that business-related meals meet the appropriate meal timeframe requirements in the FIN Manual before it incurs expenses for the meal.

Superior Court Response By: Christine M. Ace Date: 8/15/13

Issue 1: The Court is in agreement. The Court has conducted FIN Policy Review training for responsible staff.

Date of Corrective Action: August 7, 2013

Responsible Person(s): Christine M. Ace

Issue 2: The Court is in disagreement. The officially stated purpose for this purchase was for a Years of Services Celebration – which is according to FIN 8.05, 6.8 (1) is allowable.

Date of Corrective Action: NA

Responsible Person(s): Christine M. Ace

Issue 3: The Court is in agreement. The Court has conducted FIN Policy Review training for responsible staff.

Date of Corrective Action: August 7, 2013

Responsible Person(s): Christine M. Ace

11.2 Although the Court has Well-Established Controls over Payment Processing Activities, It Does Not Always Comply with Policy or Statute

Background

As stewards of public funds, courts have an obligation to demonstrate responsible and economical use of public funds. As such, the FIN Manual provides trial courts with policy and procedures to ensure courts process invoices and claims timely and in accordance with the terms and conditions of agreements. Specifically, FIN 8.01 and FIN 8.02 provide uniform guidelines for courts to use when processing vendor invoices and “in-court” services claims for payment. In-court service providers may include but are not limited to court-appointed counsel, investigators, psychiatrists, psychologists, court reporters, interpreters, mediators, and arbitrators.

FIN 8.01, 6.3 provides guidelines for accounts payable staff to process invoices for payment. Specifically, accounts payable staff will immediately stamp vendor invoices with the current date upon receipt, sort invoices by payment due date, and match invoices to appropriate supporting documentation when processing invoices for payment. This “three-point-match” procedure consists of matching an invoice to a purchase agreement and to proof of receipt and acceptance of goods or services. For example, the accounts payable employee must match all details of the invoice, including description of goods and services ordered, quantities invoiced, unit prices billed and other applicable charges to the details and terms and conditions of the court’s purchase agreements or contracts. Additionally, she must match all invoice details, including description of goods or services ordered and quantities invoiced to the details of packing slips, shipping orders, receiving reports, or an authorized court employee’s acknowledgement of delivery of products or completion of work. If one element is missing, the accounts payable employee should contact the responsible court employee to obtain the appropriate documents or secure a signature of approval.

FIN 8.02 addresses steps unique to processing in-court services claims, but other steps involved in processing claims that are not discussed in FIN 8.02 are identical to those for processing invoices as referenced in FIN 8.01. For instance, FIN 8.02, 6.3 specifies documentation required to be submitted in order for a claim to be paid, which includes a court-approved claim form, a copy of the court authorization issued to the individual or business that is making the claim, and an itemized invoice describing the services provided and costs incurred. Section 6.5 specifies that in cases where rates are not established by statute, the court may set limits on the rates charged by service providers. The rates allowed shall be reasonable for the type of service performed and shall be consistent from vendor to vendor. Section 6.8 requires an accounts payable employee to reconcile the claim to the original court authorization for the services provided and the service provider’s invoice.

Further, the Judicial Council has established Payment Policies for Contract Court Interpreters. For example, the policy lists full-day and half-day payment rates, and allows for payment above the daily rate under certain unusual circumstances.

Issues

To determine whether the Court adheres to the invoice and claims processing policies and procedures in the FIN Manual, we interviewed appropriate Court staff regarding the Court’s

current invoice and claim processing practices. The Court has well-documented payment processing practices that includes internal controls provided in the FIN Manual. However, during our review of selected invoices and claims paid in fiscal year 2011 – 2012, we identified the following instances of noncompliance with policy or statute:

1. For 2 of 40 invoices and claims selected for review, the Court did not have necessary procurement documents – such as an approved purchase requisition, quote, purchase order, or contract – to demonstrate that it performed a three-point match when processing the invoice or claim for payment. Therefore, it could not verify that the purchase was pre-approved by the appropriate approval level, and the invoice details, including description of goods and services ordered, quantities invoiced, unit prices billed and other applicable charges match the details in the procurement documentation.
2. Another 2 of 40 invoices and claims reviewed lacked approval signatures by authorized court individuals to acknowledge that services were received. Therefore, the Court could not demonstrate that it performed a three-point-match to verify that services billed were actually received when processing invoices and claims for payment.

Although another four invoices and claims reviewed contain payment approval signatures, they were not approved by the appropriate individuals in accordance with the Court's payment authorization matrix. Specifically, two court interpreter and two transcript claims were not approved by the Criminal Services Manager, and invoices for grand jury expenditures were not approved by the individual who approved the purchase requisitions.

3. For one of three court interpreter claims reviewed, the Court paid a higher rate than the rate approved by the Judicial Council, but did not document the pre-approval and the unusual circumstance for paying a higher rate. Specifically, the Court paid an American Sign Language interpreter a rate of \$450 per half day, which was significantly higher than the Judicial Council approved half-day rate of \$156.56. The claim lacked a court authorization form or similar documentation to support that the rate claimed was negotiated by the authorized Court representative and the contract interpreter. Additionally, the Court may have a reasonable justification for paying the higher rate, such as limited or no available interpreters in the needed language, but it did not document the reason for paying the higher rate.
4. One of three court reporter transcript claims reviewed lacked sufficient detail to support that the Court paid amount was authorized by Statute. Specifically, GC 69950 sets the rates that court reporters may charge for original and subsequent copies of court transcripts. However, the rates claimed appear to be higher than the rates authorized by GC 69950.

Recommendations

To ensure the Court can demonstrate responsible and economical use of public funds when processing invoices and claims for payment, it should consider the following:

1. Establish and retain appropriate procurement documents and make them available to fiscal staff so they can perform the required three-point match when processing invoices and claims for payment.
2. Retain and forward proof of receipt documentation to fiscal staff so they can perform the required three-point match when processing invoices and claims for payment. Specifically, invoices and claims for services should be verified and approved by the appropriate individuals with approval authority as listed in the Court's payment authorization matrix to indicate that all services billed are appropriate.
3. Require court interpreter claims billed at rates that exceed Judicial Council approved rates to be supported by documentation that the negotiated rate was pre-approved by the appropriate approval level, and an explanation of the unusual circumstances for paying the higher rate.
4. Require court reporter transcript claims to include sufficient detail to support the amount claimed. Additionally, the Court should only pay transcript claims at the billing rates set by GC 69950.

Superior Court Response By: Felipe Navarro Date: August 15, 2013

Please indicate agreement or disagreement. If you agree please indicate so and corrective action(s) to be taken, date when actions(s) will be taken, and responsible person. If you do not agree, please indicate why and provide details and submit supporting documentation, if necessary.

Issue 1: The Court is in agreement.

The Court will continue to establish and retain appropriate procurement documents and make them available to fiscal staff so they can perform the required **three-point match** when processing invoices and claims for payment. In addition, fiscal management will emphasize the importance to fiscal personnel the three-point match and required procurement documentation via ongoing daily training.

Date of Corrective Action: Immediately (June 2013)

Responsible Person(s): Lucille Jose, Finance Manager; and Felipe Navarro, Assistant Finance Director.

Issue 2: The Court is in agreement.

The Court will retain and forward proof of receipt documentation to fiscal staff so they can perform the required three-point match when processing invoices and claims for payment. All invoices and claims for services will be reviewed by the manager responsible for the supervision of the services and approved by the appropriate individuals per the Court's 2013-2014 Procurement Approval Threshold Matrix.

Date of Corrective Action: Immediately (June 2013)

Responsible Person(s): Lucille Jose, Finance Manager; and Felipe Navarro, Assistant Finance Director.

Issue 3: The Court is in agreement.

The Court will require that all court interpreter claims billed at rates that exceed Judicial Council approved rates to be supported by detailed documentation that the negotiated rate was pre-approved by the appropriate approval level, and an explanation of the unusual circumstances for paying the higher rate.

Date of Corrective Action: Immediately (June 2013)

Responsible Person(s): Lucille Jose, Finance Manager; and Felipe Navarro, Assistant Finance Director.

Issue 4: The Court is in agreement.

The Court will require for all court reporter transcript claims to include sufficient detail to support the amount claimed. In addition, the Court will closely review all court reporter invoices paid at a higher rate than the rate approved by the Judicial Council and will required the document for the pre-approval and the justification for the unusual circumstance for paying the higher rate.

Date of Corrective Action: Immediately (June 2013)

Responsible Person(s): Rebecca Hayes, Court Services Operations Manager (documentation); Lucille Jose, Finance Manager (Verification); and Felipe Navarro, Assistant Finance Director (Verification).

12. Fixed Assets Management

Background

The FIN Manual, FIN 9.01 provides uniform guidelines for trial courts to use when acquiring, capitalizing, monitoring, and disposing of assets. Specifically, trial courts must establish and maintain a Fixed Asset Management System (FAMS) to record, control, and report all court assets. The primary objectives of the system are to:

- Ensure that court assets are properly identified and recorded,
- Ensure that court assets are effectively utilized, and
- Safeguard court assets against loss or misuse.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with fixed assets. A description of these accounts and audit procedures we performed to review the Court's fixed assets management practices follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures				
922603 OFFICE FURNITURE - MINOR	10,207	158,176	(147,969)	-94%
922610 COMPUTER ACCESSORIES	264	24,083	(23,819)	-99%
922611 COMPUTER	60,001	72,227	(12,226)	-17%
922612 PRINTERS	12,449	46,327	(33,878)	-73%
922614 SECURITY SURVEILLANCE - M		23,080	(23,080)	-100%
922616 CELL PHONES/PAGERS	2,169	2,424	(255)	-11%
922699 MINOR EQUIPMENT - UNDER \$	25,685	705,540	(679,854)	-96%
* 922600 - MINOR EQUIPMENT - UNDER	110,774	1,031,856	(921,082)	-89%
946601 MAJOR EQUIPMENT - IT	135,915	650,857	(514,941)	-79%
* 945200 - MAJOR EQUIPMENT	135,915	650,857	(514,941)	-79%

The Court uses an electronic asset tracking system, File Trail, to record, control, and report on its fixed assets and inventory items. Furthermore, it assigned each tracked fixed asset and inventory item an RFID tag and installed RFID readers throughout its facilities. Since the RFID readers are integrated with the File Trail system, the system updates the location of an item when the RFID tag affixed on the item is scanned by a reader. This integrated system allows the Court to efficiently and effectively track the movement of its assets, and in performing physical inventories.

We evaluated compliance with FIN Manual requirements over fixed asset management, inventory control, software licensing, and transfer and disposal practices through interviews with Court management and staff, and review of supporting documentation. Specific tests include:

- Determining the accuracy of the Court's reported fixed assets by comparing the information reported in the Comprehensive Annual Financial Report (CAFR) worksheet statements 18 and 19 to the supporting accounting records.
- Verifying supporting invoices for selected fixed assets and minor equipment expenditures to determine whether the Court correctly classified these expenditures.

- Reviewing the completeness and accuracy of the asset inventory list by validating that selected fixed assets and inventory items listed were physically present, and validating that selected items were properly listed.
- Reviewing documentation to support disposal of fixed asset and inventory items to determine whether it obtained proper approvals and followed proper procedures.
- Reviewing software license monitoring tools to determine whether it has sufficient controls to track license and ensure that it follows vendor licensing requirements.

We identified minor issues associated with this section that are contained in Appendix A.

13. Audits

Background

There are many legal requirements and restrictions surrounding the use of public resources that can lead to audits of trial court operations and finances. Trial courts shall, as part of their standard management practice, conduct their operations and account for their resources in a manner that will withstand audit scrutiny. During an audit, courts shall fully cooperate with the auditors to demonstrate accountability, efficient use of public resources, and compliance with all requirements. Courts must also investigate and correct substantiated audit findings in a timely fashion.

During the course of our audit, we revisited the issues identified in our prior audit of the Court that took place in fiscal year 2006 – 2007 to determine whether it has corrected or resolved these issues. Any issues that have not been fully corrected or have resurfaced are identified in the appropriate audit report section as repeat issues. We also reviewed the most recent Court Revenue Audit issued by the State Controller's Office in March 2007 for the period July 1, 2001 through June 30, 2006 during our revenue distribution review to determine whether the Court made appropriate corrections in response to the audit.

There were no significant issues identified during this audit to report to management in this section.

14. Records Retention

Background

The FIN Manual, FIN 12.01 establishes uniform guidelines for the trial court to retain financial and accounting records. According to the FIN 12.01, 3.0, it is the policy of the trial court to retain financial and accounting records in compliance with all statutory requirements. Where legal requirements are not established, the trial court shall employ sound business practices that best serve the interests of the court. The trial court shall apply efficient and economical management methods regarding the creation, utilization, maintenance, retention, preservation, and disposal of court financial and accounting records.

The table below presents year-end general ledger account balances from the Court that we consider to be associated with records retention. A description of these accounts and audit procedures we performed to review the Court's records retention practices follows.

General Ledger Account	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Change
	2012	2011		
Expenditures				
935203 STORAGE	61,482	56,494	4,988	9%
* 935200 - RENT/LEASE	61,482	56,494	4,988	9%

We assessed the Court's compliance with the record retention requirements provided in statute and proceduralized in the FIN Manual through a self-assessment questionnaire. Furthermore, we observed and evaluated the Court's record retention procedures for various operational and fiscal records throughout the audit.

There were no significant issues identified during this audit to report to management in this section.

15. Domestic Violence

Background

We identified the statutory requirements for assessments of criminal domestic violence fines, fees, penalties, and assessments, and obtained an understanding of how the Court ensures compliance with these requirements. We also reviewed a selected sample of criminal domestic violence convictions, and reviewed corresponding CMS and case file information to determine whether the Court assessed the mandated fines and fees.

The following issues were considered significant enough to bring to management's attention. Additional minor issues may be contained in Appendix A.

15.1 The Court Could More Consistently Assess the Domestic Violence Fines and Fees Required By Statute

Background

Domestic violence (DV) is one of the leading causes of injuries to women in the United States. A nationwide survey reported that nearly one-third of American women had reported being physically or sexually abused by their husbands or boyfriends at some time in their lives. Effects can also extend to the children of the victims, elderly persons, or any family members within the household.

In 2003, the Legislature held a public hearing to examine DV shelter services. DV shelters obtain funding not only from state and federal sources; they also receive funding from the fines ordered through judicial proceedings of DV cases. Concerns were expressed about the wide disparities from county to county in the amount of resources available for shelter services, as well as concerns about the lack of consistency in the assessment of fines. As a result of a request from an assembly member, the Joint Legislative Audit Committee requested that the IAS conduct an audit of court-ordered fines and fees in certain DV cases.

As a part of the audit report that IAS issued in March 2004, IAS agreed to review the fines and fees in DV cases on an on-going basis. For example, courts are required to impose or assess the following statutory fines and fees in DV cases:

- Penal Code (PC) 1202.4 (b) State Restitution Fine
Courts must impose a separate and additional State Restitution Fine of not less than \$200 (\$240 effective January 1, 2012, and \$280 effective January 1, 2013) for a felony conviction and not less than \$100 (\$120 effective January 1, 2012, and \$140 effective January 1, 2013) for a misdemeanor conviction in every case where a person is convicted of a crime. Courts must impose this fine unless it finds compelling and extraordinary reasons for not doing so and states those reasons on the record. Inability to pay is not considered a compelling and extraordinary reason not to impose this restitution fine, but may be considered only in assessing the amount of fine in excess of the minimum.

- PC 1202.44 (or PC 1202.45) Probation (or Parole) Revocation Restitution Fine
Effective January 2005, courts must impose an additional Probation (or Parole) Revocation Restitution Fine in the same amount as the restitution fine imposed under PC 1202.4 (b) in every case in which a person is convicted of a crime and a probation (or parole) sentence is imposed.
- PC 1203.097 (a)(5) Domestic Violence Fee
Effective January 1, 2004, courts must include in the terms of probation a minimum 36 months probation period and \$400 fee (\$500 effective January 1, 2013) if a person is granted probation for committing domestic violence crimes. The legislation that amended the Domestic Violence Fee from \$200 to \$400 sunset on January 1, 2010, but a bill enacted on August 13, 2010, amended the fee back to \$400. Courts may reduce or waive this fee if they find that the defendant does not have the ability to pay, but must state the reason on the record.
- PC 1465.8 (a)(1) Court Operations Assessment
Effective August 17, 2003, courts must impose a \$20 (\$30 effective July 28, 2009, and \$40 effective October 19, 2010) Court Operations Assessment (formerly the Court Security Fee) on each criminal offense conviction.
- Government Code (GC) 70373 Criminal Conviction Assessment
Effective January 1, 2009, courts must impose a \$30 Criminal Conviction Assessment for each misdemeanor or felony and an amount of \$35 for each infraction.

Issues

Our review of the Court's criminal DV convictions between October 2011 and September 2012 found cases where the Court did not always assess the statutorily required fines, fees, and assessments. Specifically, our review of 30 DV case files with criminal convictions identified the following:

1. For 7 of 28 cases where the defendant was sentenced to probation, the Court did not assess the DV fee pursuant to PC 1203.097(a)(5). The minute orders and CMS records for these cases do not indicate that the fee was assessed and subsequently waived nor the reason for the waiver. These cases include five cases with PC 166(c)(1) convictions, one case with PC 243(e) convictions, and one case with PC 273.5(a) conviction. According to the California Judges Bench guide 74, courts must impose conditions specified for crimes of domestic violence under PC 1203.097 for these three violations.
2. The Court did not impose a PC 1202.4 - state restitution fine in two cases selected for review. Although the minute orders and CMS records for these cases show that a fine of \$500 was assessed in one case and a fine of \$250 was assessed in a second case, it is unclear whether these fines were inclusive of the minimum state restitution fine. Additionally, the minute orders and CMS records for the remaining cases separately identify the state restitution fine from the other amounts assessed.

Recommendations

To ensure that the statutorily required minimum criminal domestic violence fines and fees are assessed, the Court should consider the following:

1. Impose the DV fine for cases with criminal DV convictions that include probation sentences. If the Court reduces or waives the fee, it should specify the reason for the reduction or waiver in the minute order.
2. Impose the minimum state restitution fine for misdemeanor and felony convictions. The court should separately identify the state restitution fine from other amounts assessed in the minute order to ensure that payments are correctly distributed.

Superior Court Response By: Rebecca Hayes Date: 6/13/13

Issue 1: The Court is in agreement. The Court provides bench charts and training to the judicial officers and will continue to do so.

Date of Corrective Action: August 1, 2013

Responsible Person(s): Lucille Jose, Finance Manager (update of documents); Rebecca Hayes, Court Services Operations Manager (distribution)

Issue 2: The Court is in disagreement.

The Court is not aware of any statute requiring that the State Restitution Fine be stated specifically when ordered and can only suggest that judicial officers identify it on the record if they so choose. We will inform the Judicial Officers of this finding at our Judicial Bench Chart Review in August, 2013.

Date of Corrective Action: August 1, 2013

Responsible Person(s): Rebecca Hayes, Court Services Operations Manager

16. Exhibits

Background

Exhibits are oftentimes presented in both criminal and civil cases. Trial courts are responsible for properly handling, safeguarding, and transferring these exhibits. Trial court and security personnel with these responsibilities should exercise different levels of caution depending on the types of exhibits presented. For example, compared to paperwork and other documents, extra precautions should be taken when handling weapons and ammunition, drugs and narcotics, money and other valuable items, hazardous or toxic materials, and biological materials.

A suggested best practice for trial courts includes establishing written Exhibit Room Manuals (manuals). These manuals normally define the term “exhibit” as evidence in the form of papers, documents, or other items produced during a trial or hearing and offered in proof of facts in a criminal or civil case. While some exhibits have little value or do not present a safety hazard, such as documents and photographs, other exhibits are valuable or hazardous and may include: contracts or deeds, weapons, drugs or drug paraphernalia, toxic substances such as PCP, ether, and phosphorus, as well as cash, jewelry, or goods such as stereo equipment. To minimize the risk of exhibits being lost, stolen, damaged, spilled, and/or disbursed into the environment, courts should prepare a manual to guide and direct exhibit custodians in the proper handling of exhibits. Depending on the type and volume of exhibits, court manuals can be brief or very extensive. Manuals would provide exhibit custodians with procedures and best practices for the consistent and proper handling, storing, and safeguarding of evidence until final case disposition.

The Court uses the File Trail system – the same system it uses to track fixed asset and inventory items – to record, monitor, and report exhibits stored in the Salinas facility. Similar to its asset tracking practice, it assigns each exhibit an RFID tag to track the movement of exhibits into and out of the exhibit storage area. We evaluated controls over exhibit handling and storage by interviewing court managers and staff with exhibit handling responsibilities, reviewing the Court’s exhibit handling policy and procedures, and observing the physical conditions of exhibit storage areas. Since the Salinas facility stores the highest volume of exhibits, including sensitive exhibits presented in criminal cases, we validated a sample of exhibits stored at that location in order to test the accuracy and completeness of the exhibit records, and inspected the condition of the exhibits.

There were no significant issues identified during this audit to report to management in this section.

17. Bail

Background

In general, bail is used to ensure the presence of a defendant before the court and is most commonly submitted in the form of cash or a surety bond. Surety bonds are contracts guaranteeing that specific obligations will be fulfilled and may involve meeting a contractual commitment, paying a debt, or performing certain duties. Bail bonds are one type of surety bond. An individual arrested on a criminal charge may be held in custody until trial, unless he or someone on his behalf furnishes the required bail or acquires a bail bond. The bonding company issuing the bail bond guarantees that the defendant will appear in court at a given time and place. Licensed bail agents specialize in underwriting and issuing bail bonds, and act as the appointed representatives of licensed surety insurance companies. CRC 3.1130(a) outlines certain conditions for insurance companies to meet prior to being accepted or approved as a surety on a bond:

A corporation must not be accepted or approved as a surety on a bond or undertaking unless the following conditions are met:

- The Insurance Commissioner has certified the corporation as being admitted to do business in the state as a surety insurer;
- There is filed in the office of the clerk a copy, duly certified by the proper authority, of the transcript or record of appointment entitling or authorizing the person or persons purporting to execute the bond or undertaking for and in behalf of the corporation to act in the premises, and
- The bond or undertaking has been executed under penalty of perjury as provided in Code of Civil Procedures section 995.630, or the fact of execution of the bond or undertaking by the officer or agent of the corporation purporting to become surety has been duly acknowledged before an officer of the state authorized to take and certify acknowledgements.

Further, Penal Code Sections 1268 through 1276.5, 1305, and 1306 outline certain bail procedures for trial courts to follow such as annual preparation, revision, and adoption of a uniform countywide bail schedule, and processes for courts to follow when bail is posted.

We interviewed Court managers and staff to determine the Court's processes in establishing and tracking bail as well as validating posted bail bonds. We also reviewed the County Uniform Bail Schedule and selected case files where bail was posted to determine compliance with CRC and applicable Penal Code Sections.

There were no significant issues identified during this audit to report to management in this section.

APPENDIX A

Issue Control Log

**Superior Court of California,
County of Monterey**

Note:

The Issue Control Log summarizes the issues identified in the audit. Any issues discussed in the body of the audit report are cross-referenced in the “Report No.” column. Those issues with “Log” in the Report No. column are only listed in this appendix. Additionally, issues that were not significant enough to be included in this report were discussed with Court management as ‘informational’ issues.

Those issues that are complete at the end of the audit are indicated by the ‘C’ in the column labeled C. Issues that remain open at the end of the audit have an ‘I’ for incomplete in the column labeled I and have an Estimated Completion Date.

Internal Audit Services will periodically contact the court to monitor the status of the corrective efforts indicated by the court.

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I	C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
1 Court Administration								
	1.1	6	Court-Funded Employee Allowances may be used for Questionable or Non-Reimbursable Expenses					
			The Court provides monetary allowances to certain employees to be used in the employees' discretion to pay for expenses that are questionable or prohibited by the FIN Manual for a court to pay or reimburse.	I		The Court is in agreement. The Court is working with legal counsel to draft and update appropriate policies.	Director of Finance	November 1, 2013
		Log	The monthly Under Submission Reports reviewed were generated to identify open matters submitted within a three-month period and therefore would not capture any open matters submitted more than 90 days ago.		C	The Court is in agreement. The process was immediately changed and the Court began running the Under Submission Report for a period of 5 months to ensure the capture of any case under submission from 90 to 120 days.	Assistant CEO	August 1, 2013
		Log	For 5 of 12 sample submitted matters reviewed, the Court did not timely close the open matters in the CMS when judicial officers ruled on the matters.	I		The Court is in agreement. Additional training will be provided to the courtroom clerk to ensure the CMS under submission record is updated timely and accurately.	Assistant CEO	December 1, 2013
2 Fiscal Management and Budgets								
		Log	The Court did not provide documentation to support that the CEO and appropriate managers or supervisors approved employees' overtime in advance of overtime worked, as required by its Personnel Policies Manual.	I		The Court is in agreement. The Court will implement a standardized reporting system.	Director of Finance	December , 2013
3 Fund Accounting								
			No issues to report					
4 Accounting Principles and Practices								
	4.1	1	The Court Has Not Fully Reconciled All Trust Funds and Completed Trust Reconciliations are No Longer Current					
			The Court is not current on its trust account reconciliations to ensure that the general ledger and bank balances are supported by CMS records. The Court hired a temporary employee to reconcile the trust accounts, who has completed partial monthly reconciliations from December 2010 to March 2011 as of our review in October 2012, but an appropriate supervisory staff has not approved these reconciliations.		C	[<i>Partial response shown</i>] The reconciling of the trust and Rabobank accounts was completed thru the last bank statements received dated January 31, 2013. The remaining trust was deposited to Bank of America trust account on February 27, 2013 and all trust accounts will be reconciled to the court's case management system by March 15, 2013. The court will be completing a Notification to Close Bank Account for both the checking and savings account and will forward to the AOC Trust and Treasury Services. The court will be requesting to close both accounts upon the approval of the Judicial Council.	Finance Manager	March 15, 2013
	4.2	7	The Court Incorrectly Accounted Its Dental Benefits Program Activity					
			The Court improperly accounted for its dental benefits program activity and, as a result, misstated its dental benefits liability account balance and dental insurance expenditures.	I		[<i>Partial response shown</i>] The Court will consider proposed methodology to account for its self-funded dental benefits program activity in its general fund to ensure that it conforms to GAAP.	Director of Finance, Finance Manager, and Assistant Director of Finance	August 30, 2013 and ongoing

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
5	Cash Collections						
	5.1	2	Certain cash handling practices need improvement				
			The Finance Division maintains a supply of handwritten receipts for branch court locations to use when the CMS is down, but does not maintain adequate documentation to control unused receipts issued and used receipts returned. As a result, we identified one missing manual receipt at the King City branch location the Finance Division was unaware of.	C	[Partial response shown] The court replaced the old supply of loose hand receipts with new bound manual receipts books in November 2012 along with new procedures to properly monitor the issuance and retrieval of all manual receipts. Each location will complete a quarterly inventory of all assigned manual receipt books and Finance will audit each location at a minimum of once per quarter beginning with the 3rd Quarter of FY 12-13.	Finance Manager	December 1, 2012
			The Court allows parties whose fee waivers were denied to make installment payments on civil filing fees, but did not take appropriate action on delinquent payments.	C	[Partial response shown] Written procedures were developed and implemented in August 2012 to void filings after no monies are received for full payment; the court will amend the procedures to encompass the void filing when no first payment is received. Browsers and written procedures will be developed by June 2013 to route the file to a bench officer for review if subsequent payments after fee denial remain unpaid.	Director of Court Operations	June 30, 2013
			The Court did not comply with statutory and FIN Manual requirements for processing dishonored check payments for civil filing fees and other services on civil cases.	C	The Court agrees. Browsers were created in the court's case management system in May 2012. Written procedures for staff were developed in June 2012. Training was implemented and completed July 2012. Procedure manual is contained within the local Trial Court Financial Policies	Director of Court Operations	July 2012
			The Court has not yet conducted surprise cash counts of individuals who handle cash at any of the branch locations.	C	[Partial response shown] The court has implemented a surprise cash count procedure for all locations.	Finance Manager	September 21, 2012
		Log	In 1 of 10 partial payment cases reviewed, the case proceeded when the plaintiff had not paid the balance owed.	C	The Court is in agreement. This issue has been resolved as the \$65 balance has been paid in full.	Director of Court Operations	December 1, 2012
		Log	Although each branch location maintains a log to track mail and drop box payments received, they do not reconcile the log to ensure that all payments listed were timely processed.	I	Court will review it's process to determine if the full reconciliation of mail logs is possible. With current budget reductions that have impacted staffing and workloads, the court may need to request an alternative procedure. The court performs quarterly audits at each location which includes an audit of mail logs and at a minimum 5 cases or more are reconciled to the CMS.	Finance Manager	September 30, 2013
		Log	For 11 of 30 voids reviewed performed in August 2012, the Court did not retain the original void receipt or an e-mail request from clerk with the closeout and balancing documentation.	C	Management, supervisors and Finance staff were sent procedures on voided transactions which includes information on retention of voided receipts. If the original receipt is printed it should be retained. Mail payments that may be voided will not have an original receipt because the defendant is not sent one unless they request a receipt.	Finance Manager	August 3, 2013
		Log	For 2 of 10 delinquent cases reviewed, the Court did not timely notify the DMV for a failure-to-pay hold.	C	The Court is in agreement. There were DMV errors that prevented the hold from going to DMV. Due to lack of resources and lack of training, the DMV Errors were corrected to be best of our ability and the conviction and holds for these cases were eventually successfully reported.	Traffic Operations Manager	August 14, 2013

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I	C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
6	Information Systems							
		6.1	3	The Court Did Not Properly Distribute Certain Collections in Accordance with Statutes and Guidelines				
				I		The court agrees that GC 68090.8 – 2% deposit for automation was not applied to distributions associated with PC 1463.22 and FG 12021. Lucille Jose, Finance manager will submit a request to CMS vendor to request that configurations be updated to distribute the 2% automation for both GC 68090.8 and FG 12021 to court vendor on August 16, 2013.	Finance Manager	August 16, 2013
				I		The court agrees that it inappropriately charged the \$10 administrative assessment pursuant to VC 40508.6. Lucille Jose will submit a request to the AOC asking that Auto Assess be reconfigured to suppress the \$10 administrative assessment by September 30, 2013.	Finance Manager	September 30, 2013
				C		The court agrees that it overstated the Emergency Medical Air Transportation (EMAT) penalty assessments on VC 42007 – Traffic Violator School (TVS). The court’s CMS was updated to distribute the TVS penalty assessment correctly to the County general fund in November 2012 by court vendor Donna Argo.	Finance Manager	November 2012
				I		The court agrees that calculations and distributions for Red Light traffic school cases were incorrectly performed by CMS. The court’s CMS – Sustain is programmed to perform statutory distributions through a process called Auto Assess. Major programming changes in Sustain for Auto Assess are managed and implemented by the Administrative Office of the Courts (AOC). Lucille Jose will submit a request to the AOC asking that Auto Assess be reconfigured to correctly calculate and distribute fines on Red Light traffic school cases by August 30, 2013.	Finance Manager	August 30, 2013
				C		The court agrees that it did not apply PC 1463.11(a) – 30% allocation to the EMAT Penalty assessment correctly and overstated the distribution to the EMAT penalty assessment. The court’s CMS was updated to distribute PC 1463.11(a) 30% allocation to the general fund for the arresting agency in November 2012 by court vendor Donna Argo.	Finance Manager	November 2012

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
	Log		For traffic school cases reviewed (except Child Seat cases), the Court allocates the VC 42007 - TVS fee to three separate accounts: 900731 "TS PA-77%-VC42007", 900732 "TS PA-23%-VC42007", and 900029 "County Traffic School PC1463". Although the first two accounts correctly apply the 77/23 split to calculate the VC 42007 line item in the 50% excess MOE reporting to the State, the Court is unsure whether the County applies the 77/23 split to the "County Traffic School PC1463" account, which may result in an understated 50% excess MOE amount.	I	The Court is in agreement. The court will submit request to AOC to review audit finding and update Auto Assess in CMS to correctly distribute.	Finance Manager	August 30, 2013
	Log		The Court incorrectly distributed special base fine amounts for the Child Seat cases reviewed: - In one Child Seat case, although the Court correctly distributed the 60% and 25% portions for education and administration, respectively, to the County because the city where the arrest occurred does not have a health department; the Court incorrectly distributed the remaining 15% to the County. VC 27360.6(c) requires the 15% to be distributed to the incorporated city where the arrest occurred. - In a second Child Seat case, the Court incorrectly distributed the 60% and 25% portions for education and administration, respectively, to the city where the arrest occurred. Since the city does not have a health department, VC 27360.6(c) requires these amounts to be distributed to the County. However, the Court correctly distributed the remaining 15% to the city.	I			
	Log		In the Unattended Child case reviewed, the Court incorrectly distributed the 70% and 15% portions of the base fine for education and administration, respectively, to the city where the arrest occurred. Since the city does not have a health department, VC 15630 requires these amounts to be distributed to the County. However, the Court correctly distributed the remaining 15% to the city.	I			
	Log		For one case with a Proof of Correction, the Court incorrectly distributed 66 percent of the first \$10 to the County. Since the arrest occurred in an incorporated city, VC 40611 requires 33 percent of the first \$10 to be distributed to the County and 33 percent to the city where the arrest occurred.	I			
	Log		The Court has not periodically tested its Continuity of Operations Plan, such as through mock drills or table top analysis, to ensure successful execution of the plan during an emergency event.	I	The Court is in agreement. When funding for comprehensive testing becomes available, the Court will test. In the interim to mitigate the risk the Court currently has two live Main Data Facilities (MDF), Marina and Salinas. Critical systems are carefully load-balanced and operate between these two computer facilities. These sites serve as alternate computer facilities as well, in the event of service disruption at either site, the systems are fully functional from the other site. The Court does periodically swing systems from one site to the other to ensure these services will be available during a disaster. In the case that both sites became unavailable, the courts would follow it's COOP plan to restore systems and data from our backups that are stored offsite at Access Information Management in Livermore, CA.	IT Director	Ongoing
	Log		The Court has not periodically tested its designated backup / alternate facility sites to ensure it can successfully continue essential operations in the event that its main facility becomes unavailable.	I			
	Log		The Court has not yet formally adopted its draft Information Technology Security Policy.	I	The Court is in agreement. IT Security Policy (ITSP) is scheduled to be brought to the Court Technology Committee for approval.	IT Director	December 1, 2013

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I	C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
		Log	The Court does not require its judicial officers to change their network operating system passwords periodically to prevent against unauthorized access.	I				
		Log	The Court's server room is not sufficiently equipped to prevent against environmental damage to its computer equipment. Specifically, the room has a water sprinkler system as opposed to non-water based fire suppression equipment; and lacks emergency power cut-off switches, and smoke and moisture detection equipment.	I		The Court is in agreement. A CAFM ticket has been open to request that this change be made to the fire suppression system in the Server Rooms.	IT Director	Ongoing
7	Banking and Treasury							
		Log	The list of individuals authorized to sign checks for the revolving account is outdated. For instance, it lists the former PJ and APJ as check signers.	I		The Court is in agreement. The court will update the list of individual signers on the revolving account.	Finance Manager	August 30, 2013
8	Court Security							
		Log	Our review of June 2012 contract security invoices found that one regular hourly rate and one overtime hourly rate billed did not match the hourly rates agreed upon in the Court's contract with the vendor.		C	The Court is in agreement. The item was brought to the UPS vendor's attention and their hourly and rate schedule was updated.	Assistant Director of Finance	Completed
		Log	The number of hours billed on the contract security invoices reviewed did not always match the number of hours on supporting itemized schedules and timesheets. Although individual discrepancies were immaterial, we identified multiple discrepancies in all invoices reviewed.		C	The Court is in agreement. The Court will continue to work with the contracted security services vendor on all invoices to ensure accuracy. The Court only pays for services provided and agreed upon by the contract. The Court is also planning to issue an RFP in 2013 for these services.	Assistant Director of Finance	Ongoing
9	Procurement							
		8.1	8	Although Court has Well-Established Controls over Procurement Activities, Some Practices were Inconsistently Followed				
			For 3 of 19 non-purchase card procurements reviewed, the Court did not set up a purchase order on the Phoenix Financial System to encumber funds for the contracted services.	I		The Court is in agreement. The Court will review the Trial Court Financial Policies and Procedures FIN 5.01 section 6.6 with finance staff.	Assistant Director of Finance	September 30, 2013
			Three of four sole source procurements reviewed that exceeded \$5,000 were not supported by sole source request forms.	I		The Court is in agreement. The Court will review the JBCM Chapter 5 and the JBCM Local Contracting Manual with finance staff.	Assistant Director of Finance	October 31, 2013
			The Court did not engage in competitive procurement practices for 1 of 19 procurements reviewed that were required to be purchased competitively.	I		The Court is in agreement. The Court will review the JBCM Chapter 4a-c and the JBCM Local Contracting Manual with all staff involved in procurement.	Assistant Director of Finance	December 31, 2013
			For 19 non-purchase card procurements selected for review, the Court did not prepare a purchase requisition prior to 2 procurements, and the associated requisitions for another 2 procurements did not contain approval signatures. Additionally, for 3 of 9 purchase card transactions selected for review, the purchase requisitions on file were approved after the purchases were made.	I		The Court is in agreement. The Court will review the JBCM Chapter 5 and the JBCM Local Contracting Manual with finance staff.	Assistant Director of Finance and Finance Manager	October 31, 2013
			One of nine purchase card procurements selected for review exceeded the \$1,500 per transaction limit.		C	The Court is in agreement. The Court will ensure that purchase cards are only used to make purchases of goods under \$1,500 per transaction for court business. Purchases exceeding \$1,500 will be made through traditional procurement methods.	Assistant Director of Finance	Immediately
10	Contracts/MOU							
		Log	One of five contracts reviewed did not include a provision for modifying contract terms, and an independent contractor provision.		C	The Court is in agreement. The Court has discontinued business with American Telesource Inc. as of 7/1/2013. However all Court contracts are drafted and or reviewed by AOC Legal Services before they are executed.	IT Director	July 1, 2013

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I	C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
	Log		For one of five contracts reviewed, the Court did not obtain from the contractor evidence of general liability insurance and Certificate of Competency as required by the contract.		C	The Court is in agreement. The Court is tracking all contractor documentation required in the agreements and will update its procurement files, where necessary.	Assistant Director of Finance	August 13, 2013
	Log		Although the County bills electronic data processing services using an indirect cost allocation methodology, the Court-County MOU does not identify the method of calculation of each indirect or overhead cost.	I		The Court is in agreement. The Court will take the necessary corrective action at next negotiations for this \$7,500 charge.	Director of Finance	Ongoing
11	Accounts Payable							
	11.1	5	Certain Business-Related Meals Either Did Not Contain Advanced Approval or were Inappropriate					
			Four of seven business-related meal authorization request forms reviewed were approved after the expenses have been incurred.		C	The Court is in agreement. The Court has conducted FIN Policy Review training for responsible staff.	Director of Finance	August 7, 2013
			The Court used court funds to hold a years of service celebration for a court official that appears to celebrate the individual's retirement and therefore is an inappropriate use of court funds.			The Court is in disagreement. The officially stated purpose for this purchase was for a Years of Services Celebration – which is according to FIN 8.05, 6.8 (1) is allowable.	Director of Finance	Not applicable
			For one of seven business-related meal requests reviewed, the Court paid for a breakfast group meal that did not meet the authorized business meal timeframe.		C	The Court is in agreement. The Court has conducted FIN Policy Review training for responsible staff.	Director of Finance	August 7, 2013
	11.2	9	Although the Court has Well-Established Controls over Payment Processing Activities, It Does Not Always Comply with Policy or Statute					
			For 2 of 40 invoices and claims selected for review, the Court lacked procurement documents to demonstrate that it performed a three-point match when processing the invoice or claim for payment.		C	The Court is in agreement. The Court will continue to establish and retain appropriate procurement documents and make them available to fiscal staff so they can perform the required three-point match when processing invoices and claims for payment. In addition, fiscal management will emphasize the importance to fiscal personnel the three-point match and required procurement documentation via ongoing daily training.	Finance Manager and Assistant Director of Finance	Immediately (June 2013)
			Of 40 invoices and claims reviewed, 2 invoices lacked approval signatures to acknowledge that services were received, and another 4 invoices and claims were not approved by the appropriate individuals in accordance with the Court's payment authorization matrix.		C	The Court is in agreement. The Court will retain and forward proof of receipt documentation to fiscal staff so they can perform the required three-point match when processing invoices and claims for payment. All invoices and claims for services will be reviewed by the manager responsible for the supervision of the services and approved by the appropriate individuals per the Court's 2013-2014 Procurement Approval Threshold Matrix.	Finance Manager and Assistant Director of Finance	Immediately (June 2013)
			For one of three court interpreter claims reviewed, the Court paid a higher rate than the rate approved by the Judicial Council, but did not document the pre-approval and the unusual circumstance for paying a higher rate.		C	The Court is in agreement. The Court will require that all court interpreter claims billed at rates that exceed Judicial Council approved rates to be supported by detailed documentation that the negotiated rate was pre-approved by the appropriate approval level, and an explanation of the unusual circumstances for paying the higher rate.	Finance Manager and Assistant Director of Finance	Immediately (June 2013)
			One of three court reporter transcript claims reviewed lacked sufficient detail to support that the Court paid amount was authorized by Statute.		C	The Court is in agreement. The Court will require for all court reporter transcript claims to include sufficient detail to support the amount claimed. In addition, the Court will closely review all court reporter invoices paid at a higher rate than the rate approved by the Judicial Council and will required the document for the pre-approval and the justification for the unusual circumstance for paying the higher rate.	Court Services Operations Manager, Finance Manager, and Assistant Finance Director	Immediately (June 2013)

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I	C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
		Log	Although the Court asserted that it completed the standard form 270 to document vehicle accidents, it did not complete standard form 274 to document supervisory review of accidents and actions taken.		C	The Court is in agreement. The Court will work with AOC Risk Management to implement Form 274. The Court requires the driver involved in an accident to complete form STD 270. Form 270 is reviewed and signed by a supervisor/safety coordinator and manager and forwarded to AOC Risk Management. Over the last 7 plus years, the Court has only reported damage to parked vehicles. No serious "moving accident" has occurred since April 2005.	Assistant Director of Finance	August 15, 2013
		Log	Four of eight travel expense claims reviewed did not have all sections completed, including one or more of the following sections: business purpose of the trip, normal working hours, home and/or headquarters address, and vehicle license number if mileage reimbursement was claimed.		C	The Court is in agreement. The Court will work closely with employees to better document the travel information in claims. This information will be cross checked with the detailed documentation kept in the Court's accounts payable file.	Assistant Director of Finance	August 15, 2013
		Log	For two of eight travel expense claims selected for review, the Court reimbursed the incorrect amounts. In one instance, it reimbursed the traveler for mileage claimed from home, which was greater than mileage calculated from the traveler's designated headquarter. In the second instance, it reimbursed for incidentals claimed on the first day of travel, which is not allowed.		C	The Court is in agreement. The Court will follow up on this incident and correct the reimbursement. In addition, travel claim reimbursement review process will be revisited and cross-checked with policy.	Assistant Director of Finance	August 30, 2013
		Log	One of seven business-related meal authorization request forms reviewed did not contain a list of expected attendees, their titles and affiliations.		C	The Court is in agreement and has taken corrective action to resolve this issue.	Administrative Analyst	August 1, 2013
12	Fixed Assets Management							
		Log	Our review of 77 selected items courtwide to assess the accuracy and completeness of the Court's fixed asset and inventory item tracking system found the following discrepancies: Four items listed were not located, the listed locations of eight additional items were incorrect, and the RFID tag numbers for another two items were not identified in the system.		C	The Court is in agreement. The court will ensure the accuracy and completeness of its fixed asset and inventory via its RFID system and periodic internal audits to eliminate any discrepancy.	Assistant Director of Finance	Ongoing
		Log	One of five surplus items selected for review that was recorded on the fixed asset and inventory tracking system as disposed was not supported by an asset transfer/disposal form approved by the CEO.		C	The Court is in agreement. The Court's records were adjusted after this review. The serial numbers placed in the RFID system were incorrect. Ultimately, the form STD 152 was found and verified.	Assistant Director of Finance	Completed
		Log	One of five equipment purchases reviewed was not recorded in the fixed asset and inventory tracking system.		C	The Court is in agreement. The Court's records were adjusted after this review.	Assistant Director of Finance	Completed
13	Audits							
			No issues to report.					
14	Records Retention							
			No issues to report.					
15	Domestic Violence							
		15.1	4			The Court Could More Consistently Assess the Domestic Violence Fines and Fees Required By Statute		
					C	For 7 of 28 cases where the defendant was sentenced to probation, the Court did not assess the DV fee pursuant to PC 1203.097(a)(5).	Finance Manager and Court Services Operations Manager	August 1, 2013
					C	The Court is in disagreement. The Court is not aware of any statute requiring that the State Restitution Fine be stated specifically when ordered and can only suggest that judicial officers identify it on the record if they so choose. We will inform the Judicial Officers of this finding at our Judicial Bench Chart Review in August, 2013.	Court Services Operations Manager	August 1, 2013

FUNCTION	RPT NO.	ISSUE MEMO	ISSUE	I	C	COURT RESPONSE	RESPONSIBLE EMPLOYEE	ESTIMATED COMPLETION DATE
		Log				C The Court is in agreement. The Court provides bench charts and training to the judicial officers and will continue to do so.	Criminal Operations Manager	August 13, 2013
		Log		I		The Court is in agreement. The Court will provide refresher training to staff.	Criminal Operations Manager and Court Services Operations Manager	December 1, 2013
16	Exhibits							
17	Bail							