

SUPERIOR COURT OF CALIFORNIA, COUNTY OF EL DORADO

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2017, through June 30, 2018



BETTY T. YEE
California State Controller

February 2021



BETTY T. YEE
California State Controller

February 16, 2021

Tania Ugrin-Capobianco, Court Executive Officer
Superior Court of California, County of El Dorado
2850 Fairlane Court, Suite 110
Placerville, CA 95667

Dear Ms. Ugrin-Capobianco:

The State Controller's Office audited the Superior Court of California, County of El Dorado (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, in the course of testing, we noted weaknesses in the Court's internal controls over its enhanced collection reimbursements, year-end revenue accruals, and expenditure-related procurements and disbursements process. These issues are described in the Findings and Recommendations section of our report.

This report is for your information and use. The Court's responses to the findings are incorporated into this final report. The Court disagreed with our position in Finding 1 regarding its calculation of reimbursements from the enhanced collections program, but also indicated that it would seek to clarify with the JCC what corrective actions may be appropriate. The Court generally agreed with our observations in Finding 2, and provided measures to correct and address the fiscal control weaknesses and recommendations. We appreciate the Court's willingness to implement corrective actions.

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

Sincerely,

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

MR/as

Tania Ugrin-Capobianco,
Court Executive Officer

-2-

February 16, 2021

cc: Shelby Wineinger, Assistant Court Executive Officer
Superior Court of California, County of El Dorado
Susan Sandoval, Fiscal Services Supervisor
Superior Court of California, County of El Dorado
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer and Director of Finance
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Grant Parks, Principal Manager
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	6
Follow-up on Prior Audit Findings	6
Views of Responsible Officials	6
Restricted Use	6
Schedule 1—Summary of Revenues and Revenue Test Results	7
Schedule 2—Summary of Expenditures and Expenditure Test Results	8
Schedule 3—Summary of Fund Balances and Fund Balance Test Results	9
Findings and Recommendations	10
Attachment—Superior Court of California, County of El Dorado Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of El Dorado (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, in the course of testing, we noted weaknesses in the Court's internal controls over its enhanced collection reimbursements, year-end revenue accruals, and expenditure-related procurements and disbursements process. These issues are described in the Findings and Recommendations section of our report.

Background

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

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

With respect to trial court operations, CRC Rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty,

integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components form the core of subject matter of our audit.

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

In fiscal year (FY) 2017-18, the Court (County of El Dorado) generated approximately 77.4% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 71 staff members to fulfill the operational and administrative activities necessary to serve El Dorado County's population of 188,993. The Court incurred approximately \$9,098,945 million in expenditures for the period of July 1, 2017, through June 30, 2018. Of this amount, approximately 78% represents employee salaries and benefits.

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

We performed the audit at the request of the JCC. The authority is provided by Interagency Agreement No. 38881, dated May 28, 2019, between the SCO and the JCC.

**Objective, Scope,
and Methodology**

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

The audit period was July 1, 2017, through June 30, 2018.

Specifically, we conducted this audit to determine whether:

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

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

To accomplish our objective, we:

General Procedures

- Reviewed the *Judicial Council Governance Policies (November 2017)*, the Budget Act, the *Manual of State Funds*, applicable Government Code and California Rules of Court sections, the *Trial Court Financial Policies and Procedures Manual (Eighth Edition, December 2016)*, and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Controls

- Reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- Interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties, were properly designed, implemented, and operating effectively, by performing walk-throughs of revenue and expenditure transactions.
- Reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- Evaluated electronic access controls and the data reliability of the Court's financial system.
- Selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 40 revenue items and 40 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. If errors or questionable variances were identified, when applicable, we tested additional items and did not project error rates to the account's population of transactions or its dollar value total.

We designed our testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our testing methodology and results are as follows:

Revenue Testing

- We tested revenue transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether revenue accounting was consistent with authorizing Government Code sections, properly

supported by documentation, and recorded correctly in the accounting system.

- We tested 100% of the revenue balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$8,648,964 for FY 2017-18. Material revenue accounts are identified in Schedule 1 of this report.
- We tested \$7,791,003 of \$8,648,964, or 90.1% of total revenues.

We found errors in the recording of transactions that caused current-year (FY 2017-18) revenues to be understated by \$24,417. These identified errors had a minor cumulative effect on the Court's reporting of revenue (approximately 0.003% of total revenue reported). We did not expand our testing because we tested 90% of the total revenues, and the errors identified had only a minor cumulative effect on the overall revenue balance.

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

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. Material expenditure accounts are identified in Schedule 2 of this report. We stratified accounts into two groups comprised of personnel services (payroll) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods occurring in March 2018 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 25 of 72 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay were supported by salary schedules and Personnel Action Forms;
 - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.
- To test material non-payroll accounts, we:
 - Sample-tested 58 transactions from the material accounts. These transactions include the initial 40 expenditure transactions

selected for testing internal controls; and

- Traced expenditures recorded in the general ledger to supporting documentation.
- We tested \$618,497 of \$9,085,945, or 6.8% of total expenditures.

The test results revealed control weaknesses in procurements and disbursements, and in recording prior-year transactions. The cumulative error total for transactions identified in expenditure-related control testing is \$4,950 (or 0.0005% of reported expenditures), which has a negligible effect on financial reporting. We did not expand testing due to the negligible effect of the errors identified.

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

Fund Balance Testing

- We judgmentally selected the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund because these funds had significant balances in revenue and expenditure accounts.
- We tested revenue and expenditure transactions in the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedule 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2018, were accurate and in compliance with applicable criteria.

For the funds tested, we noted that the General Fund balance was understated by \$339 and the Non-Grant Special Revenue Fund balance was understated by \$24,078 as of June 30, 2018. These balances were understated because the Court did not accurately calculate and accrue reimbursements and revenues due the court.

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

We conducted this performance audit under the authority of GC section 77206(h) and in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the court’s internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit the court’s financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

However, in the course of testing and as presented previously, we noted instances of error and internal control deficiencies. The details of these issues are provided in the Findings and Recommendations section of this report.

**Follow-up on
Prior Audit
Findings**

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC’s Internal Audit Services, which issued a report in April 2011. We did not include any follow-up related to matters presented in JCC’s prior report.

**Views of
Responsible
Officials**

We issued a draft audit report on November 23, 2020. Shelby Wineinger, Assistant Court Executive Officer, responded by letter dated December 16, 2020 (Attachment), agreeing with the audit results, except for Finding 1 with respect to calculating reimbursable costs of enhanced collections. This final audit report includes the Court’s response.

Restricted Use

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

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

February 16, 2021

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2017, through June 30, 2018**

Revenue Accounts	Total Revenues ¹	Percentage Totals	Amounts Tested ¹	Percentages Tested	Error Amounts ^{1, 2}
<u>State Financing Sources³</u>					
Trial Court Trust Fund ⁴	\$ 6,690,522	77.4%	\$ 6,690,522	100%	\$ (339)
Improvement and Modernization Fund	23,701	0.3%	6,618	27.9%	-
Court Interpreter	250,971	2.9%	11,548	4.6%	-
MOU Requirements	110,774	1.3%	43,209	39.0%	-
Other Miscellaneous	213,120	2.5%	213,120	100%	-
Subtotal	7,289,088		6,965,017		(339)
<u>Grants³</u>					
AB 1058 Commissioner/Facilitator ⁴	363,625	4.2%	363,625	100%	-
Other Judicial Council Grants	171,455	2.0%	14,098	8.2%	-
Subtotal	535,079		377,723		-
<u>Other Financing Sources³</u>					
Interest Income	11,018	0.1%	675	6.1%	-
Local Fees	299,523	3.5%	13,282	4.4%	-
Non-Fee Revenues	18,688	0.2%	5,117	27.4%	-
Enhanced Collections ⁴	402,593	4.7%	402,593	100%	(24,078)
Prior Year Revenue	(280)	0.0%	166	59.3%	-
County Program – Restricted	77,591	0.9%	20,459	26.4%	-
Reimbursement Other	10,968	0.1%	2,037	18.6%	-
Other Miscellaneous	4,694	0.1%	3,964	84.5%	-
Subtotal	824,797		448,293		(24,078)
Total Revenues	<u>\$ 8,648,964</u>	100%	<u>\$ 7,791,033</u>	90.1%	<u>\$ (24,417)</u>

¹ Differences due to rounding.

² Revenues over/(under) stated; see Finding 1.

³ Tested account internal controls.

⁴ Material account.

**Schedule 2—
Summary of Expenditures and Expenditure Test Results
July 1, 2017, through June 30, 2018**

Expenditure Accounts	Total Expenditures ¹	Percentage Totals	Amounts Tested ¹	Percentages Tested	Error Amounts ^{1, 2}
<u>Payroll</u>³					
Salaries – Permanent ⁴	\$ 4,689,429	51.5%	\$ 346,945	7.4%	\$ -
Temp Help	-	0.0%	-	0.0%	-
Overtime	2,263	0.0%	-	0.0%	-
Staff Benefits ⁴	2,407,779	26.5%	141,255	5.9%	-
Subtotals	7,099,471		488,200		-
<u>Operating Expenses and Equipment</u>³					
General Expense	160,758	1.8%	3,185	-2.0%	1,056
Printing	16,178	0.2%	6,573	40.6%	-
Telecommunications	83,764	0.9%	1,912	2.3%	1,781
Postage	52,345	0.6%	3,564	6.8%	313
Insurance	3,025	0.0%	3,025	100%	-
In-State Travel	25,746	0.3%	1,682	6.5%	-
Out of State Travel	-	0.0%	-	0.0%	-
Training	8,932	0.1%	2,483	27.8%	-
Security Services	19,058	0.2%	2,244	11.8%	-
Facility Operations	104,647	1.2%	2,192	2.1%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services ⁴	1,071,124	11.8%	50,377	4.7%	3,693
Consulting and Professional Services	119,453	1.3%	19,666	16.5%	-
Information Technology	268,574	3.0%	23,107	8.6%	1,800
Major Equipment	9,633	0.1%	9,633	100%	-
Other Items of Expense	-	0.0%	-	0.0%	-
Subtotals	1,943,236		129,642		8,643
<u>Special Items of Expense</u>³					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	55,648	0.6%	64	0.1%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	156	0.0%	-
Prior-year Expense Adjustment	590	0.0%	435	73.7%	(3,693)
Subtotals	55,648		220		(3,693)
Total Expenditures	\$ 9,098,945	100%	\$ 618,497	6.7%	\$ 4,950

¹ Differences due to rounding.

² Expenditures over/(under) stated; see Finding 2.

³ Tested account internal controls.

⁴ Material account.

Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2017, through June 30, 2018

Balance ¹	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 29,709	\$ -	\$ -	\$ 29,709
Revenues	7,528,901	584,984	535,079	8,648,964
Expenditures	(7,970,476)	(593,390)	(535,079)	(9,098,945)
Transfers In	-	-	-	-
Transfers Out	(8,407)	8,407	-	-
Ending Balance	<u>\$ (420,273)</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ (420,273)</u>
Ending Balance Error Amount:				
Revenues ²	<u>(339)</u>	<u>(24,078)</u>	<u>-</u>	<u>(24,417)</u>
Totals	<u>\$ (339)</u>	<u>\$ (24,078)</u>	<u>\$ -</u>	<u>\$ (24,417)</u>

¹ Differences due to rounding.

² See Finding 1.

Findings and Recommendations

FINDING 1— Revenues – Internal control deficiencies and accounting errors

As part of our revenue testing, we reviewed the Enhanced Collections Program. We also compared and reconciled the JCC's Trial Court Trust Fund distributions with the Court's recorded monthly revenue ledger entries. We noted errors in the calculation and recording of reimbursable enhanced collection program costs. We also found an omitted year-end Trial Court Trust Fund accrual. These errors resulted from deficiencies in accounting internal controls. Specifically, we found that:

- The Court did not apply its indirect cost rate to staff benefit costs when calculating the reimbursable costs for administering its Enhanced Collections Program. Collections performed in the enforcement of court orders for fees, fines, forfeitures, restitutions, penalties, and assessments result in various operating costs to the Court. Through the Enhanced Collections Program, the Court receives reimbursements to recover related operating and indirect costs.

Additionally, the Court applied an incorrect indirect cost rate to its reimbursable cost calculations. The Court's approved indirect cost rate for FY 2017-18 was 20.02%. However, the Court applied a lower indirect cost rate of 10% to direct salaries charged to the Enhanced Collections Program. If the Court had applied the approved indirect cost rate of 20.02% to both direct salaries and benefits charged to the program, it would have recovered additional reimbursements of \$24,078.

- The Court did not accrue \$339 at year-end for the Trial Court Trust Fund Automated Record Keeping and Micro Graphics (General Ledger [GL] Account No. 812160) from Distribution No. 14. We discovered this minor variance when comparing the Trial Court Trust Fund distributions to the Court's ledger entries. The Court acknowledged an oversight in recording the distribution.

CRC Rule 10.804(a) states:

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

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.01, section 6.3.1 states, in part:

Since the trial court derives most of its revenues from state funding and local fees and fines, revenues can be accurately measured and expected to be available within a reasonable amount of time to pay for current liabilities. The trial court must use a 60-day period as the criterion to determine revenue availability.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.02, section 6.7 states, in part:

To achieve full cost recovery, each court will apply the applicable indirect cost rate (in effect at the time the billing is prepared) to the total salaries/wages and benefits of direct cost centers or programs, unless an indirect cost rate exception is in effect for the entity being billed (as may be the case with the federal government).

Recommendation

We recommend that the Court strengthen its internal controls over Enhanced Collection reimbursements and the year-end closing process to ensure that revenues are fully recorded and properly accrued in the period in which they are measurable and available.

Court's Response

The draft audit report states the Court could have withheld an additional \$24,078 from collections revenue to offset the costs of its Enhanced Collections program by applying a 20.02% indirect cost rate to both staff salaries and benefits, instead of the lower 10% rate actually applied to staff salaries alone. For clarity and perspective, the Court's conservative approach to recovering its costs ultimately resulted in more collection revenues being passed on to the county and the State, which provides funding for important programs.

Importantly, the Court's Enhanced Collections program is based on sections 1463.007 and 1463.010 of the Penal Code, which require the Court to follow Judicial Council guidelines for operating this program. The Council's guidelines specifically state that a court may impose a 10% indirect cost rate, applied only to staff salaries, in lieu of developing another rate. The Court appreciates the auditor's conclusion that it potentially could have withheld more collections revenue to offset its costs, but we respectfully disagree that the Court violated Council policy or recorded revenue improperly. Nevertheless, the Court will discuss this issue with Judicial Council collections staff and will develop a corrective action plan, if necessary.

SCO Comment

Our finding and recommendation remain unchanged.

Although the JCC guidelines permit the Superior Courts to use a 10% default rate in lieu of another rate, the Court developed an alternative indirect cost rate proposal prior to the audit period. The Court submitted the indirect cost rate proposal to the Judicial Council Budget Services staff for review and approval. The JCC approved the Court's request to use a 20.02% cost rate for FY 2017-18 in a February 9, 2018 memorandum.

The Court references Penal Code sections 1463.07 and 1463.10 to justify its rate. However, these statutes do not specify a rate; they provide the Superior Courts with authority and direction for operating a comprehensive collection program. In particular, Penal Code 1463.10 directs the Court to follow the Judicial Council Guidelines. According to

the JCC guidelines referenced in the finding above, the approved rate should be applied to both salaries and benefits.

**FINDING 2—
Expenditures –
Internal control
deficiencies and
accounting
classification
errors**

During our review and testing of the Court’s expenditures, we noted internal control deficiencies relating to its procurement and disbursement process. We also noted classification errors in the accounting and recording of invoiced transactions.

Procurement and disbursement internal control deficiencies include:

- A purchase order, requisition form, or contract was not provided to support payment terms for two vendor transactions in amounts of \$1,781 and \$313;
- Services were completed prior to renewal of a vendor contract in the amount of \$1,056; and
- Services were completed prior to approval of a vendor purchase order in the amount of \$1,800.

Expenditures related to prior-year transactions were misclassified in the accounts as current-year operating activities. The testing revealed eight invoices representing services that were rendered in the prior fiscal year (FY 2016-2017). Transactions that were not accrued in a prior year, and were paid in the current year, should be recorded in the Prior-Year Expense Adjustment Account (GL Account No. 99910). The combined value of the eight invoices is \$3,693. Court staff members indicated that delays in receiving invoices prevented the accrual of expenditures before the June 30 deadline.

It is worthwhile noting that the Prior-Year Expense Adjustment Account is treated as a current-year expenditure (recognized) and not as an adjustment to prior-year financial statements. Therefore, the fund balance is not affected by these misclassification errors. However, correctly classifying prior-year transactions in the Prior-Year Expenses Adjustment Account more closely matches period costs by truing up current year operating expense accounts and improves the accuracy of accounting data used for budget and cost management.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 1.03, section 6.3.3 states, in part:

5. Proper Authorization Documentation

- a. The Court must establish a system of authorization to provide effective management control over its assets, liabilities, revenues and expenditures. The specific levels and scope of authority of executives, managers, supervisors, and staff, with dollar limits where appropriate, must be established and documented. That documentation will be provided to applicable court, county, and accounting service provider personnel, and to the Judicial Council of California, for reference.
- b. When processing transactions, evidence of authorization must be maintained in the accounting files to document that:
 - i. Proper authorizations are obtained.

- ii. Authorizations are issued by court employees acting within the scope of their authority.
- iii. Transactions conform to the terms of the authorizations.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.01, section 6.4 states, in part:

The trial court must recognize expenditures in the fiscal year during which goods are received or services are rendered.

Trial Court Financial Policies and Procedures Manual, Eighth Edition, Policy No. Fin 5.02, section 3.0 states:

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

The Trial Court Chart of Accounts describes GL Account No. 999910 – Prior-Year Expense Adjustment as the account used for recording “expenses related to prior year activity.”

Recommendation

We recommend that the Court:

- Enforce procedural internal controls to ensure that all account balances are accurately stated in the financial statements at year-end.
- Maintain adequate procurement documents to define the services that vendors agree to provide the Court.

Court’s Response

Procurement and disbursement internal control deficiencies:

- Purchase order, requisition form, or contract not provided to support payment terms for two vendor transactions in the amounts of \$1,782 and \$324: Contracts were provided to support payment terms for both vendor transactions, however the Court agrees that purchase orders were not created for these contracts. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Services completed prior to renewal of vendor contract (\$1,057) and vendor purchase order approval (\$1,800): These expenses were for ongoing services which renew each year, and the Court agrees with this finding. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Prior year expenditures: The Court will share this audit finding with Judicial Council accounting staff to obtain greater clarity over the proper use of the prior-year adjustment accounts in the general

ledger. Certain expenditures, when recorded to specific general ledger accounts, are reimbursable to the Court from the Judicial Council, and may be impacted. The Court agrees in principle that adjustments to revenue or expenditures from the prior year should not affect the reporting of the current year's revenues and expenditures.

- Importantly, the draft audit report states that the errors identified (equal to 0.0005% of reported expenditures) had a negligible effect on the Court's financial reporting.

**Attachment—
Superior Court of California, County of El Dorado
Response to Draft Audit Report**



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF EL DORADO**

2850 Fairlane Court, Suite 110
Placerville, CA 95667

1

December 16, 2020

Joel James
Chief, Financial Audits Bureau
California State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250

RE: Superior Court of California, County of El Dorado
Validity of Recorded Revenues, Expenditures, and Fund Balances Audit Report
July 1, 2017 - June 30, 2018

Dear Mr. James,

We are in receipt of the draft audit report referenced above, and have provided our responses to the two findings.

Finding #1:

The draft audit report states the Court could have withheld an additional \$24,078 from collections revenue to offset the costs of its Enhanced Collections program by applying a 20.02% indirect cost rate to both staff salaries and benefits, instead of the lower 10% rate actually applied to staff salaries alone. For clarity and perspective, the Court's conservative approach to recovering its costs ultimately resulted in more collection revenues being passed on to the county and the State, which provides funding for important programs.

Importantly, the Court's Enhanced Collections program is based on sections 1463.007 and 1463.010 of the Penal Code, which require the Court to follow Judicial Council guidelines for operating this program. The Council's guidelines specifically state that a court may impose a 10% indirect cost rate, applied only to staff salaries, in lieu of developing another rate. The Court appreciates the auditor's conclusion that it potentially could have withheld more collections revenue to offset its costs, but we respectfully disagree that the Court violated Council policy or recorded revenue improperly. Nevertheless, the Court will discuss this issue with Judicial Council collections staff and will develop a corrective action plan, if necessary.

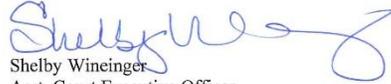
El Dorado Superior Court FY 17-18

Finding #2:

Procurement and disbursement internal control deficiencies:

- Purchase order, requisition form, or contract not provided to support payment terms for two vendor transactions in the amounts of \$1,782 and \$324: Contracts were provided to support payment terms for both vendor transactions, however the Court agrees that purchase orders were not created for these contracts. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Services completed prior to renewal of vendor contract (\$1,057) and vendor purchase order approval (\$1,800): These expenses were for ongoing services which renew each year, and the Court agrees with this finding. The Court has refreshed training for applicable staff to ensure all expenditures are made in compliance with established Court procurement policies and procedures, and will continue to monitor all transactions.
- Prior year expenditures: The Court will share this audit finding with Judicial Council accounting staff to obtain greater clarity over the proper use of the prior-year adjustment accounts in the general ledger. Certain expenditures, when recorded to specific general ledger accounts, are reimbursable to the Court from the Judicial Council, and may be impacted. The Court agrees in principle that adjustments to revenue or expenditures from the prior year should not affect the reporting of the current year's revenues and expenditures.
- Importantly, the draft audit report states that the errors identified (equal to 0.0005% of reported expenditures) had a negligible effect on the Court's financial reporting.

Sincerely,

Shelby Wineinger
Asst. Court Executive Officer

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