

**SUPERIOR COURT OF CALIFORNIA,  
COUNTY OF SAN LUIS OBISPO**

Audit Report

**VALIDITY OF RECORDED REVENUES,  
EXPENDITURES, AND FUND BALANCES**

*July 1, 2020, through June 30, 2021*



**BETTY T. YEE**  
California State Controller

October 2022



**BETTY T. YEE**  
California State Controller

October 31, 2022

Michael Powell, Court Executive Officer  
Superior Court of California, County of San Luis Obispo  
1035 Palm Street, Room 385  
San Luis Obispo, CA 93408

Dear Mr. Powell:

The State Controller's Office audited the Superior Court of California, County of San Luis Obispo (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, 2020, through June 30, 2021.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies for revenues, expenditures, and fund balances. However, we also identified accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. We also found two instances of missing vendor agreements, and errors in the expenditures and fund balances presented in the Court's fourth-quarter Statement of Revenues, Expenditures and Changes in Fund Balances. These issues are described in the Findings and Recommendations section of this report.

This report is for your information and use. The Court's responses to the findings are incorporated into this final report. The Court agreed with our observations and provided a Corrective Action Plan to address the fiscal accounting errors, the control weaknesses, and the 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*

**KIMBERLY TARVIN, CPA**  
Chief, Division of Audits

KT/ac

cc: Geoff O'Quest, Court Fiscal Officer/Senior Administrative Director  
Superior Court of California, County of San Luis Obispo  
Martin Hoshino, Administrative Director  
Judicial Council of California  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of San Luis Obispo (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, 2020, through June 30, 2021.

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies for revenues, expenditures, and fund balances. However, we also identified instances of accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. We also found two instances of missing vendor agreements, and errors in the expenditures and fund balances presented in the Court's fourth-quarter Statement of Revenues, Expenditures and Changes in Fund Balances (Q4 Statement). These issues are described in the Findings and Recommendations section of this 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 California Constitution. 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* (FIN Manual), which provides guidance and directives for trial court fiscal management. As required by CRC rule 10.804(a), the FIN Manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines; and it describes 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 are the core subject matter of our audit.

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates monies in the TCTF to trial courts. The TCTF'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) 2020-21, the Court reported revenues of \$17,686,091. The Court receives the majority of its revenue from state financing sources. The TCTF provided 83.1% of the Court's revenue. During the audit period, the Court incurred expenditures of \$17,950,853. Payroll-related expenditures (salaries and benefits) comprised 83.2% of total expenditures. The Court employed 138 staff members to serve San Luis Obispo County's population of approximately 47,900 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, a Special Revenue Grant Fund, and a Fiduciary Fund. The General Fund, Special Revenue Non-Grant Fund, and Special Revenue Grant Fund had revenue and expenditure accounts in excess of 4% of total revenues and expenditures, and were considered material and significant for testing.

We performed the audit at the request of the JCC. Audit authority is provided by Interagency Agreement Number 70343, dated October 26, 2021, between the SCO and the JCC, and by GC section 77206(h)(2).

**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.

Specifically, we conducted this audit to determine whether:

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

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

The audit period was July 1, 2020, through June 30, 2021.

To accomplish our objective, we performed the following procedures.

#### General Procedures

- We reviewed the *Judicial Council Governance Policies* (November 2017), the FY 2020-21 Budget Act, the Manual of State Funds, Government Code, the California Rules of Court, the JCC's FIN Manual (11th edition, June 2020), and Judicial Branch policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

#### Internal Control Procedures

- We 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.
- We interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- We 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.
- We reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the Court's financial and human resources systems; (2) reviewing Court policies; (3) agreeing accounting data files with published financial reports; (4) tracing data records to source documents to verify completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key court information systems. We determined that the data was sufficiently reliable for the purposes of achieving our objective.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 25 revenue items and 21 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the impact of identified errors. Errors were not projected to the intended (total) population.

### Revenue Testing Procedures

We designed our revenue testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our procedures included tests of recorded transaction details and of accounting internal controls.

- We tested revenue transactions and account balances in the General Fund and the Non-Grant Special Revenue Fund to determine whether revenue accounting was consistent with Government Code, properly supported by documentation, and recorded correctly in the accounting system.
- We selected all material financial statement accounts that exceeded 4% of total revenues, and determined that the TCTF account was material. We expanded our testing to include the TCTF – Judges Compensation and TCTF – Court Interpreter, and MOU (memorandum of understanding) Reimbursement accounts. We tested accounts through combined sampling and analytical procedures.
- We tested \$15,753,351 of \$17,686,091, or 89.1% of total revenues.

We identified errors in account balances that resulted from unadjusted differences between revenues earned and accrued in the prior year and remittances received in the current year. There was no effect on overall total revenue. 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, by account, the revenue and test totals and the error amounts noted.

### Expenditure Testing Procedures

We designed our expenditure testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our procedures included tests of recorded transaction details and of accounting internal controls.

- We tested expenditure transactions and account balances in the General Fund, the Special Revenue Non-Grant Fund, and the Special Revenue Grant Fund to determine whether expenditures were incurred pursuant to Government Code, 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 accounts included payroll-related (salaries and benefits) accounts and non-payroll (Contracted Services) accounts.
- To test payroll-related expenditure accounts, we selected two pay periods (two-weeks each, bi-monthly) occurring in September 2020 and April 2021, and reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger. We further

selected six of 138 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 expenditure accounts, we:
    - Judgmentally selected a sample of 15 expenditure transactions to test the accuracy of recorded transactions and key internal controls;
    - Selected disbursement transactions that we considered individually significant (material), exceeding \$110,000; and
    - Vouched expenditures recorded in the general ledger to supporting documents.
  - We tested \$261,976 of \$17,950,853, or 1.5% of total expenditures.

We found two instances of missing current agreements for services provided by Court vendors. We also found errors in the Court's published Q4 Statement due to accruing and reclassifying expenditures after submitting the Q4 Statement to the JCC for publication.

The details of our findings are provided in the Findings and Recommendations section of our report. Schedule 2—Summary of Expenditures and Expenditure Test Results presents, by account, related amounts tested.

#### Fund Balance Testing Procedures

We designed our fund balance testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our procedures included review of fund classifications and accounting internal controls.

- We judgmentally selected the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund, as these funds had revenue and expenditure accounts with significant balances.
- We tested revenue and expenditure transactions in these funds to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedules 1 and 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, 2021, were accurate and in compliance with applicable criteria.

For the funds tested, we found that the Non-Grant Special Revenue Fund balance presented in the Court's year-end certified Q4 Statement was understated by \$10,283 because an adjusting entry was recorded to correct an expenditure accrual after the Court submitted its Q4 Statement to the JCC for publication.

We also found that the Court recorded an adjusting entry to reclassify certain expenditures between its Governmental Funds (General Fund, Grant Special Revenue Fund, and Non-Grant Special Revenue Fund) after submitting its certified Q4 Statement. The adjustment altered fund balance amounts among the three Funds presented in the Q4 Statement.

The details of our finding are provided in the Findings and Recommendations section of this report. Schedule 3—Summary of Fund Balances and Fund Balance Test Results presents, by fund, total balances, changes in fund balances, and error amounts noted.

We conducted this performance audit 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the court's internal controls to gaining an understanding of the internal controls that are significant to 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 substantially 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, we also identified instances of accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. We also found two instances of missing vendor agreements, and errors in the expenditures and fund balances presented in the Court's Q4 Statement. These issues are described in the Findings and Recommendations section of this report.

## **Follow-up on Prior Audit Findings**

We have not previously conducted an audit of the Court's revenues, expenditures, and fund balances; therefore, there are no prior audit findings to address in this report.

**Views of  
Responsible  
Officials**

We issued a draft audit report on June 21, 2022. The Court responded by letter dated June 29, 2022, agreeing with the audit results. This final audit report includes the Court's response as an attachment.

**Restricted Use**

This report is solely intended for the information and use of the Superior Court of California, County of San Luis Obispo; 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](http://www.sco.ca.gov).

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

October 31, 2022

**Schedule 1—  
Summary of Revenues and Revenue Test Results  
July 1, 2020, through June 30, 2021**

Revenue Accounts	Revenues Reported		Revenues Tested		Error
	Total <sup>1</sup>	Percentage	Amount <sup>1</sup>	Percentage	Amount <sup>2</sup>
<b>State Financing Sources</b>					
Trial Court Trust Fund <sup>3, 4</sup>	\$ 14,689,713	83.1%	\$ 14,689,713	100.0%	\$ 2,661
Improvement and Modernization Fund	93,879	0.5%	-	0.0%	-
Judge's Compensation	97,500	0.6%	-	0.0%	-
Court Interpreter <sup>4</sup>	640,974	3.6%	640,974	100.0%	-
MOU Reimbursements <sup>4</sup>	516,297	2.9%	422,664	81.9%	61,748
Other Miscellaneous	298,957	1.7%	-	0.0%	-
Subtotal	16,337,320		15,753,351		64,409
<b>Grants</b>					
AB 1058 Commissioner/Facilitator	229,178	1.3%	-	0.0%	-
Other Judicial Council Grants	33,887	0.2%	-	0.0%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	263,065		-		-
<b>Other Financing Sources</b>					
Interest Income	28,240	0.2%	-	0.0%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	-	0.0%	-	0.0%	-
Local Fees	257,942	1.5%	-	0.0%	-
Non-Fee Revenues	25,830	0.1%	-	0.0%	-
Enhanced Collections	304,841	1.7%	-	0.0%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	119,865	0.7%	-	0.0%	(64,409)
County Program - Restricted	40,085	0.2%	-	0.0%	-
Reimbursement Other	301,103	1.7%	-	0.0%	-
Sale of Fixed Assets	2,925	0.0%	-	0.0%	-
Other Miscellaneous	4,875	0.0%	-	0.0%	-
Subtotal	1,085,707		-		(64,409)
Total Revenues	\$ 17,686,091	100.0%	\$ 15,753,351	89.1%	\$ -

<sup>1</sup> Differences due to rounding.

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

<sup>3</sup> Material account.

<sup>4</sup> Tested account internal controls.

**Schedule 2—  
Summary of Expenditures and Expenditure Test Results  
July 1, 2020, through June 30, 2021**

Expenditure Accounts <sup>1</sup>	Expenditures Reported		Expenditures Tested		Error
	Total	Percentage	Amount	Percentage	Amount <sup>2</sup>
<b>Payroll</b>					
Salaries – Permanent <sup>3, 4</sup>	\$ 9,584,676	53.4%	\$ 48,676	0.5%	\$ -
Temporary Help	7,268	0.0%	-	0.0%	-
Overtime	-	0.0%	-	0.0%	-
Staff Benefits <sup>3, 4</sup>	5,348,554	29.8%	17,760	0.3%	-
Subtotal	14,940,498		66,436		-
<b>Operating Expenses and Equipment</b>					
General Expense	359,020	2.0%	-	0.0%	-
Printing	24,064	0.1%	-	0.0%	-
Telecommunications	143,508	0.8%	-	0.0%	-
Postage	61,577	0.3%	-	0.0%	-
Insurance	7,138	0.0%	-	0.0%	-
In-State Travel	846	0.0%	-	0.0%	-
Out of State Travel	-	0.0%	-	0.0%	-
Training	4,643	0.0%	-	0.0%	-
Security Services	2,258	0.0%	-	0.0%	-
Facility Operations	119,074	0.7%	-	0.0%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services <sup>3, 4</sup>	1,266,794	7.1%	195,541	15.4%	(10,283)
Consulting and Professional Services	220,566	1.2%	-	0.0%	-
Information Technology	471,078	2.6%	-	0.0%	-
Major Equipment	291,138	1.6%	-	0.0%	-
Other Items of Expense	3,544	0.0%	-	0.0%	-
Subtotal	2,975,249		195,541		(10,283)
<b>Special Items of Expense</b>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	45,340	0.3%	-	0.0%	-
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%	-	0.0%	-
Prior Year Expense <sup>4</sup>	(10,234)	-0.1%	-	0.0%	-
Subtotal	35,106		-		-
Total Expenditures	\$ 17,950,853	100.0%	\$ 261,976	1.5%	\$ (10,283)

<sup>1</sup> Differences due to rounding.

<sup>2</sup> Expenditures over/(under) stated: See Finding 3.

<sup>3</sup> Material account.

**Schedule 3—**  
**Summary of Fund Balances and Fund Balance Test Results**  
**July 1, 2020, through June 30, 2021**

<b>Balance</b>	<b>General Fund <sup>1</sup></b>	<b>Non-Grant Special Revenue Fund <sup>1</sup></b>	<b>Grant Special Revenue Fund <sup>1</sup></b>	<b>Fiduciary Fund</b>	<b>Total <sup>1</sup></b>
Beginning Balance	\$ 569,885	\$ 2,210,613	\$ -	\$ -	\$ 2,780,498
Revenues	16,659,252	765,144	261,696	-	17,686,091
Expenditures	(16,671,806)	(1,021,460)	(267,870)	-	(17,961,136)
Transfers In	-	18,293	-	-	18,293
Transfers Out	(24,466)	-	6,174	-	(18,293)
Ending Balance	<u>\$ 532,865</u>	<u>\$ 1,972,589</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,505,454</u>
Errors Noted					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditure <sup>2</sup>	-	(10,283)	-	-	(10,283)
Total	<u>\$ -</u>	<u>\$ (10,283)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,283)</u>

<sup>1</sup> Differences due to rounding.

<sup>2</sup> Expenditures over/(under) stated: See Finding 3.

# Findings and Recommendations

## **FINDING 1— Unadjusted revenues**

While testing revenue transactions, we noted three instances in which the Court did not adjust revenue accounts for differences between prior-year (FY 2019-20) revenues that were accrued in the prior year and amounts received during the current year (FY 2020-01).

All judicial branch trial courts use an accounting system with automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year. Revenue (including reimbursements) that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, general ledger (GL) Account Number 899910, and promote more accurate reporting of program revenue earned in the current fiscal year.

We noted the following unadjusted reimbursements for prior year program activities that were not accrued:

- GL Account Number 812157 (TCTF – Children’s Waiting Room) – The Court received \$1,663 for FY 2019-20. This unadjusted difference resulted in the current-year program revenue account being overstated by \$1,663.
- GL Account Number 812160 (TCTF – Automated Recordkeeping and Micrographics) – The Court received \$998 for FY 2019-20. This unadjusted difference resulted in the current-year program revenue account being overstated by \$998.
- GL Account Number 831012 (GF – Prisoner Hearing Costs) – The Court received \$61,748 for a FY 2018-19 second-quarter reimbursement claim. This unadjusted difference resulted in the current-year program revenue account being overstated by \$61,748.

The JCC’s uniform trial court chart of accounts establishes adjustment accounts in the trial court general ledger. Revenues are reclassified by using GL Account Number 899910 (Prior Year Revenue Adjustment) to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but received in the current year. Expenditures are reclassified in a similar way by using GL Account Number 999910 (Prior Year Expense Adjustment).

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled with current-year transactions and reported in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The JCC’s Administrative Division staff provides guidance to courts for using the Prior-Year Revenue Adjustment account in its annual *Year-End*

*Close Training Manual—General Ledger.*

Section 7.1, “Automated Accrual Reversal Process,” of the FY 2020-21 *Year-End Close Training Manual—General Ledger* states, in part: As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2021 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2021.

Note: If an accrual was not recorded at year-end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year accounts are to be used in the subsequent fiscal year.

Policy Number FIN 5.02, section 3.0, “Policy Statement,” of the JCC’s FIN Manual (11th edition, June 2020) 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 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.

Recommendation

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, as described in the JCC’s accounting guidance. Differences between amounts actually received in the current year and the amounts accrued in the prior year should be entered in the adjustment accounts. All unaccrued deposits for the prior year should be either entered in or reclassified to the adjustment account.

We also recommend that the Court’s accounting procedures include ensuring the accuracy of account classifications when recording transactions in the general ledger.

**FINDING 2—  
Missing vendor  
agreements**

While reviewing expenditure transactions, we found that the Court did not have agreements with two vendors. Our expenditure testing includes reviewing underlying documentation, such as contractual agreements, invoices, purchase orders, grant documents, and correspondence, when needed. Procuring services is typically initiated and managed through some form of an agreement.

One of the vendors lacking an agreement is funded by a JCC grant to support the Collaborative Justice Courts Substance Abuse Focus Grant Program. Court staff stated that the Court does not have a current agreement with the vendor, and that its last agreement with the vendor was in 2007. Court staff further indicated that the Court has received Substance Abuse Focus Grant funding since at least 2007, and has been working with the vendor since that time to support drug abuse programs in partnership with the County’s Drug and Alcohol Services Division.

For the second of the two vendors lacking an agreement, Court representatives explained that services were arranged with the vendor on the basis of a master agreement that the JCC established with the vendor; Court staff further stated that the Court did not prepare and use a separate participation agreement with the vendor. Under the terms of the master agreement, individual courts are required to prepare and use separate participation agreements with vendors. The master agreement provides a template participating agreement form.

In both instances, the Court has taken immediate steps to prepare current agreements with the vendors. The Court provided us with the partial agreements. The Court is awaiting vendor signatures.

Policy Number FIN 7.01, section 3.0, “Policy Statement,” of the JCC’s FIN Manual states:

The trial court must execute a written contract when entering into agreements for services or complex procurements of goods. It is the responsibility of every court employee authorized to commit trial court resources to apply contract principles and procedures that protect the interests of the court.

Policy Number FIN 7.01, section 6.6, “Master Agreements,” item 2, of the JCC’s FIN Manual states:

When service requirements arise that may be filled under a master agreement, the trial court issues a written authorization [participation agreement] to the provider that describes the services to be performed. Service authorizations must be within the scope, period, and maximum value of the agreement. Each authorization must contain the following information:

- a. Name of the person placing the order.
- b. Date of the authorization.
- c. Contact number and authorization number.
- d. A description of the work to be performed and associated cost or unit rate.
- e. Delivery or performance rate.
- f. Place of delivery or performance.
- g. Any other pertinent information

Section 9.1A., “Payment Fundamentals,” of the *Judicial Branch Contracting Manual* (revised August 1, 2018) states:

Payments should not be processed or released by a JBE [Judicial Branch Entity] to a Vendor for any goods or services unless the JBE possesses all of the following:

- A properly authorized contract;
- Documentation verifying the goods/services were satisfactorily received and/or performed; and
- An accurate, properly submitted Vendor invoice.

### Recommendation

We recommend that the Court finalize the agreements with the two vendors, following the JCC policy and guidelines, and review its procurement files periodically to ensure that other service arrangements are current and appropriately substantiated.

### **FINDING 3— Court financial statement reporting errors**

The JCC publishes on its website each court's set of certified quarterly financial statements. The financial statements include a certification letter signed by the presiding judge. We found variances between the amounts reported in the Q4 Statement and general ledger balances for two of the Court's expenditure accounts and three of its primary operating funds.

For the Contracted Services and Information Technology accounts, we found variances between the Q4 Statement and the general ledger balances:

- Contracted Services – The general ledger shows expenditures of \$1,277,071 and the Q4 Statement shows expenditures of \$1,266,794. Therefore, the Court's Q4 Statement was understated by \$10,283. As a result, the Court's total reported expenditures and its total combined fund balance for the fiscal year ending June 30, 2021, were also understated by \$10,283.

The Court provided us with documentation showing that during the Court's year-end financial reporting and closing processes, an expenditure accrual entry had been misposted to the FY 2021-22 general ledger account balance. The entry was subsequently reversed and correctly included in the FY 2020-21 general ledger account balance. The reversing adjustment was entered after the Court submitted its Q4 Statement to the JCC, but prior to closing the year-end general ledger. The error amount is presented in Schedule 2 of our report.

- Information Technology – The expenditure amounts reported by the Court in the Q4 Statement's General Fund and Special Revenue (Non-Grant) Fund did not present expenditure amounts as they were recorded at year-end in the Court's general ledger:
  - General Fund – the Q4 Statement shows expenditures of \$196,763 and the general ledger shows expenditures of \$311,285.
  - Non-Grant Special Revenue Fund – the Q4 Statement shows expenditures of \$274,316 and the general ledger shows expenditures of \$159,794.

The Courts submit a Q4 Statement to the JCC before the JCC closes and finalizes the Court's general ledger. Each year, the JCC notifies courts of due dates for quarterly reports and general ledger closing dates. During the time frame between submitting the Q4 Statement and finalizing the year-end general ledger, the Court reclassified and adjusted expenditures between funds. The account's combined totals did not change. Schedule 2 in our report does not present discrete fund-level activities; therefore, it does not include this discrepancy.

Section 3, “Planning for the Year-End,” of the *Phoenix, Year-End Close General Ledger, FY 2020-2021*, states:

The Trial Courts must create a work plan or task list that identifies specific year-end activities required to meet the year-end financial reporting due dates. If courts do not meet the established dates, the JCC cannot meet the deadline for submitting the Comprehensive Annual Financial Report (CAFR) to the State Controllers’ Office.

Recommendation

We recommend that the Court consult with the JCC Branch Accounting to provide any updated reports that may occur after due dates pass and, if necessary, use prior-period adjustment accounts in the following year’s period to account for adjustments that may have occurred after submitting and publishing the Q4 financial statements.

**Attachment—  
Superior Court’s Comments  
Regarding the Audit Results**

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Superior Court of California  
County of San Luis Obispo

**Court Administration**

**Craig van Rooyen**  
Presiding Judge

**Michael Powell**  
Court Executive Officer



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June 29, 2022

Joel James, Chief, Financial Audits Bureau  
State Controller's Office, Division of Audits  
PO Box 942850  
Sacramento, CA 94250

Re: Audit of the Superior Court, County of San Luis Obispo

Dear Mr. James,

We have received the draft audit report dated June 21, 2022 and appreciate the thorough report. The courts responses to the findings are below.

**Finding 1: Unadjusted revenues**

The court agrees with the finding. The court has implemented accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences.

**Finding 2: Missing vendor agreements**

The court agrees with the finding and has taken steps to finalize the agreements with the two vendors. The court will also ensure that its procurement files are periodically reviewed to ensure that other service arrangements are current and appropriately substantiated.

**Finding 3: Court financial statement reporting errors**

The court agrees with the finding. The court will ensure that any changes made after reporting due dates pass have passed are reflected in updated reports provided to JCC Branch Accounting.

Thank you for the opportunity to respond to the draft report.

Sincerely,



Michael Powell,  
Court Executive Officer  
Superior Court of California, County of San Luis Obispo

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250**

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