

SUPERIOR COURT OF CALIFORNIA, COUNTY OF SUTTER

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2017, through June 30, 2018



BETTY T. YEE
California State Controller

February 2020



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California State Controller

February 13, 2020

Stephanie Hansel, Court Executive Officer
Superior Court of California, County of Sutter
1175 Civic Center Boulevard
Yuba City, CA 95993

Dear Ms. Hansel:

The State Controller's Office audited the Superior Court of California, County of Sutter (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 revenues, expenditures, and fund balances. However, our audit identified a few instances in which revenue and expenditure transactions were not recorded correctly in the accounting records. Errors in the recording of revenues caused a cumulative understatement of \$65,220 (or roughly 1% of all revenue reported). Similarly, cumulative expenditures were understated by \$132,987 (or 2% of reported expenditures). We also noted weaknesses in the Court's internal controls for procurement and disbursement processing. 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. 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

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Joe Azevedo, Court Fiscal Officer
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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Sutter (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 the 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 revenues, expenditures and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies, and were maintained in accordance with appropriate fund accounting principles. However, in the course of our testing, we identified a few instances in which the court did not record revenues and expenditures correctly. Errors in the recording of revenues caused a cumulative understatement of \$65,220 (or approximately 1% of all revenue reported). Similarly, cumulative expenditures were understated by \$132,987 (or 2% of reported expenditures).

We also noted weaknesses in the Court's internal controls for procurement and disbursement processing. These issues are further 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 (CRC), 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 CRC. Trial courts are also subject to compliance with various other state laws, rules, and regulations, much of which are codified in California's Government Code (GC), which includes GC sections 68070 through 77013, Title 8, The Organization and Government of Courts.

Pursuant to 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, 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 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 that may be established by the trial court for their positions.

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

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates the TCTF to trial courts. The two main revenue sources to the TCTF 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 Sutter) generated approximately 78% of its total revenues from TCTF allocations.

Serving the County of Sutter with a population of 98,735, the Superior Court of California, County of Sutter employs approximately 58 staff members to fulfill its operational and administrative activities. The Court incurred approximately \$6.6 million in expenditures for the period of July 1, 2017, through June 30, 2018. Of this amount, approximately 76% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, a Non-Grant Special Revenue Fund, a Grant Special Revenue Fund, and a Fiduciary Fund. The General Fund and the Non-Grant Special Revenue Fund each 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 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.

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 relevant other internal policies and procedures to identify compliance requirements that apply 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 data reliability of the Court's financial system; and
- 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. Testing was expanded for accounts in which instances of error were identified to verify the impact of identified instances. Errors were not projected to the population.

We designed our testing to both 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 testing methodology and results are summarized below:

Revenue Testing

- We tested revenue transactions and account balances in the General Fund, Non-Grant Special Revenue Fund, and 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.
- The selections made for testing represented all revenue accounts that exceeded 4% of the Court's total revenues of \$6,540,212 for FY 2017-18. We tested 100% of the revenue balances reported in these accounts. The sample consisted of 40 transactions selected to test both internal controls and account recording.
- We tested \$6,180,085 of \$6,540,212, or 94.5% of total revenues.

We found errors in the recording of transactions that caused current-year (FY 2017-18) revenues to be understated by \$59,643 and prior-year (FY 2016-17) revenues to be understated by \$5,577. These identified errors had a minor cumulative effect on the Court's reporting of revenue (approximately 1% of total revenue reported).

Details of our findings are provided in the Findings and Recommendations section of this report. The following table identifies total revenues by account, related amounts tested, and error amounts noted:

Revenue Accounts	Total Revenues	Percentage Total	Amount Tested	Percentage Tested	Error Amount ¹
<u>State Financing Sources²</u>					
Trial Court Trust Fund ³	\$5,121,237	78.3%	\$5,121,237	100.0%	\$ 2,869
State Trial Court Improvement and Modernization Fund	12,301	0.2%	12,301	100.0%	12,301
Court Interpreter ³	315,436	4.8%	315,436	100.0%	(2,852)
MOU Requirements ¹	186,113	2.8%	2,520	1.4%	-
Other Miscellaneous	159,761	2.4%	159,761	100.0%	-
Subtotal	<u>5,794,848</u>		<u>5,611,255</u>		<u>12,318</u>
<u>Grants²</u>					
AB 1058 Commissioner/Facilitator ³	272,528	4.2%	272,528	100.0%	(3,926)
Other Judicial Council Grants	102,618	1.6%	8,532	8.3%	-
Subtotal	<u>375,146</u>		<u>281,060</u>		<u>(3,926)</u>
<u>Other Financing Sources²</u>					
Interest Income	25,633	0.4%	2,131	8.3%	-
Local Fees	70,688	1.1%	8,278	11.7%	-
Enhanced Collections ³	273,665	4.2%	273,665	100.0%	(68,035)
County Program – Restricted	3,615	0.1%	3,615	100.0%	-
Other Miscellaneous	377	0.0%	81	21.5%	-
Subtotal	<u>373,978</u>		<u>287,770</u>		<u>(68,035)</u>
Revenue (before Prior-Year Adjustments)	6,543,972		6,180,085		(59,643)
Prior-Year Adjustments	<u>(3,760)</u>	-0.1%	-	0.0%	<u>(5,577)</u>
Total Revenues	<u>\$6,540,212</u>	100.0%	<u>\$6,180,085</u>	94.5%	<u>\$ (65,220)</u>

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

² Tested internal controls.

³ Material accounts.

Expenditure Testing

- We tested expenditure transactions and account balances of the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections, consistent with the fund's purpose, properly authorized, adequately supported, and accurately recorded in the accounting records.
- The selections made for testing represented all material expenditure accounts that exceeded 4% of total expenditures. 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 salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 30 of 53 employees from the payroll registers and verified the following attributes:
 - Employee timesheets included supervisory approval;
 - Regular earnings and other supplemental pay was 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.
- For the material non-payroll accounts:
 - We selected all expenditure transactions (100%) that exceeded \$50,000;
 - From the remaining population, we sample-tested an additional 36 transactions, in addition to the initial 40 expenditure transactions selected for testing internal controls;
 - The sample of 40 expenditure transactions were used for testing both internal controls and the accuracy of recording transactions; and
 - We traced expenditures recorded in the general ledger to supporting documents.
- We tested \$719,366 of \$6,629,685, or 10.9% of total expenditures.

The test results revealed internal control deficiencies and showed that current-year expenditures for staff benefits were understated by \$27,856 and contracted services were overstated by \$1,584. We also found that prior-year (FY 2016-17) expenditures were understated by \$106,715. These identified errors had a minor cumulative effect on the court's reporting of expenditures (equal to 2% of the total expenditures reported).

Details of our findings are provided in the Findings and Recommendations section of this report. A summary is presented in the following table:

Expenditure Accounts	Total Expenditures	Percentage Total	Amount Tested	Percentage Tested	Error Amount ¹
<u>Personnel Services²</u>					
Salaries – Permanent ³	\$ 3,084,946	46.5%	\$ 134,241	4.4%	\$ -
Overtime	473	0.0%	-	0.0%	-
Staff Benefits ³	<u>1,923,859</u>	29.0%	<u>53,449</u>	2.8%	<u>(27,856)</u>
Subtotal	<u>5,009,278</u>		<u>187,690</u>		<u>(27,856)</u>
<u>Operating Expenditures and Equipment²</u>					
General Expense	150,334	2.3%	43,083	28.7%	-
Printing	14,767	0.2%	879	6.0%	-
Telecommunications	34,325	0.5%	4,832	14.1%	-
Postage	46,752	0.7%	1,169	2.5%	-
Insurance	3,452	0.1%	2,725	78.9%	-
In-State Travel	5,912	0.1%	1,672	28.3%	-
Training	10,419	0.2%	1,430	13.7%	-
Security Services	161,361	2.4%	13,885	8.6%	-
Facility Operations	10,649	0.2%	1,033	9.7%	-
Contracted Services ³	820,470	12.4%	245,333	29.9%	1,584
Consulting and Professional Services	9,815	0.1%	320	3.3%	-
Information Technology	229,982	3.5%	107,096	46.6%	-
Other Items of Expense	<u>28,637</u>	0.4%	<u>28,069</u>	98.0%	-
Subtotal	<u>1,526,875</u>		<u>451,526</u>		<u>1,584</u>
<u>Special Items of Expense²</u>					
Jury Costs	13,532	0.2%	150	1.1%	-
Other	<u>80,000</u>	1.2%	<u>80,000</u>	100.0%	-
Subtotal	<u>93,532</u>		<u>80,150</u>		-
Expenditures (before Prior-Year Adjustments)	6,629,685		719,366		(26,272)
Prior-Year Expenditure Adjustments	<u>-</u>	0.0%	<u>-</u>	0.0%	<u>(106,715)</u>
Total Expenditures	<u>\$ 6,629,685</u>	100.0%	<u>\$ 719,366</u>	10.9%	<u>\$ (132,987)</u>

¹ Expenditures over/(under)stated; see Findings 2 and 3.

² Tested internal controls.

³ Material account.

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 the table below for transaction summary by fund);

- We verified the accuracy of individual fund balances in the Court’s financial supporting documentation; and
- We recalculated sampled funds to ensure that fund balances as of June 30, 2018, were accurate and in compliance with applicable criteria.

We noted that the fund balance was overstated by \$67,767 as of June 30, 2018, because the Court did not record revenue and payroll benefit expenditures accurately in its accounting records.

The following table identifies changes in fund balances:

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 516,779	\$ 262,263	\$ -	\$ 779,042
Revenues	5,827,185	337,881	375,146	6,540,212
Expenditures	(5,871,311)	(337,297)	(421,075)	(6,629,683)
Transfers – In	-	36,210	45,929	82,139
Transfers – Out	(82,139)	-	-	(82,139)
Ending Balance	<u>\$ 390,514</u>	<u>\$ 299,057</u>	<u>\$ -</u>	<u>\$ 689,571</u>
<u>Ending Balance Error Amount:</u>				
Revenues (Finding 1)	\$ 2,815	\$ (68,035)	\$ -	\$ (65,220)
Payroll Benefits (Finding 2)	132,987	-	-	132,987
Totals	<u>\$ 135,802</u>	<u>\$ (68,035)</u>	<u>\$ -</u>	<u>\$ 67,767</u>

We conducted this performance audit under the authority of GC section 77206(h). We conducted the 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 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, and were maintained in accordance with appropriate fund accounting principles. However, in the course of testing, we noted that in some instances, the Court did not record revenue transactions in the period in which revenues were earned and available.

We noted that, in other instances, employee benefits were paid in excess of recorded expenditures. We also noted weaknesses in the Court's internal controls over procurement and disbursement processing. These issues are further described in the Findings and Recommendations section of this report.

**Follow-up on
Prior Audit
Findings**

This is the first audit performed by the SCO at the Court pursuant to GC section 77206(h)(2); therefore, the SCO did not have prior audit findings to address in this report. The Court was previously audited by the JCC's Internal Audit Services, which issued a report in November 2013. We are not including any follow-up to matters presented in the JCC's prior report.

**Views of
Responsible
Officials**

We issued a draft report on January 13, 2020. Stephanie Hansel, Court Executive Officer, responded by email dated February 3, 2020 (Attachment), agreeing with the audit results. This audit report includes the Court's response.

Restricted Use

This report is solely intended for the information and use of the Superior Court of California, County of Sutter; 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

JIM L. SPANO, CPA
Chief, Division of Audits

February 13, 2020

Findings and Recommendations

FINDING 1— Revenues – Reporting Deficiencies

We noted inaccuracies and inconsistencies in the recording of transactions during our testing of the Court's revenue accounts. We identified the following errors:

- The Court's FY 2017-18 financial statements reported \$5,121,237 of Trial Court Trust Fund (TCTF) revenues; however, the TCTF Distribution Schedules that we obtained from the Judicial Council of California (JCC) showed TCTF allocations to the Court in the amount of \$5,118,367. Reconciling the differences revealed posting errors related to prior-year revenues and accruals. Details are as follows:
 - The Court understated TCTF Operations revenue (GL Account 812110) of \$6,151 by recording a negative adjustment from the prior year's (FY 2016-17) TCTF Distribution Schedule #14 in the current year. The prior-year revenue negative adjustment should have been recorded in the Prior Year Revenue Adjustment Account (GL Account 899910).
 - The Court duplicated a journal entry to accrue revenues and receivables at year-end for the TCTF – Returned Checks (GL Account 812152), Civil Assessments (GL Account 812159), Child Custody Evaluations (GL Account 812162), and Court Appointed Counsel for Children (GL Account 812163). Revenue and General Fund balances were thereby overstated by \$9,185.
 - The Court did not accrue revenue of \$164 at year-end from TCTF Distribution Schedule #14 for the TCTF Automated Record Keeping and Micro Graphics (GL Account 812160). Revenue and General Fund balances were understated by \$164.
- The Court incorrectly recorded prior-year reimbursements of \$3,353 for Court Interpreter fees from the FY 2016-17 TCTF Distribution Schedule #14 as current year reimbursements, instead of posting to the Prior Year Revenue Adjustment Account (GL Account 899910).

Additionally, the Court did not accrue reimbursements totaling \$6,205 from FY 2017-18 TCTF Distribution Schedule #14. As a result, reimbursements for the Court Interpreter Program were understated by \$2,852 and the General Fund balance was understated by \$6,205.

- The AB 1058 Grant revenue for the Child Support Commissioner and Family Law Facilitator programs was understated by \$3,926. The Court incorrectly recorded reductions to prior-year reimbursements as adjustments to current-year revenue. Adjustments to prior year revenues should be recorded in the Prior Year Revenue Adjustment Account (GL Account 899910).
- For FY 2017-18, the Court did not include all reimbursable costs of administering its Enhanced Collections Program when calculating its full cost recovery. Additionally, we found accounting entries for costs and related reimbursements recorded in different fiscal years. 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. We calculated that the Court should have reported additional cost reimbursements of \$68,035. Details are as follows:

- The Court posted reimbursements to an incorrect fiscal period, thereby not matching reimbursements with the related costs of the same fiscal period. Fiscal-year program operating costs of \$37,430 for June 2018 were posted in July 2018 of the subsequent fiscal year and recorded as a reimbursement for FY 2018-19.
- The Court did not include \$5,469 of direct costs for salaries, benefits, and operating expenses recorded during the year-end adjustment period of FY 2017-18 when calculating the cost recovery reimbursement of its Enhanced Collections Program for the same period.
- The Court applied an incorrect indirect cost rate and excluded benefits from indirect cost calculations. The Court's approved indirect cost rate for FY 2017-18 was 22.67%. However, the Court applied a lower indirect cost rate of 20% to direct salaries charged to the Enhanced Collections Program.

By applying the approved indirect cost rate of 22.67% to both direct salaries and benefits charged to the program, the Court would have recovered \$25,136 in additional revenue.

- The Court did not transfer expenditures in the amount of \$2,455 for program indirect costs in May 2018 from the Trial Court Operations Fund (General Fund) to the Enhanced Collections Fund (Grant Special Revenue Fund); however, the Court correctly included these expenditures when computing the monthly recovery costs. As a result, the error affected only the ledger classification, not the revenue calculation.
- The Court incorrectly recorded a prior-year (FY 2016-17) revenue allocation of \$12,301 for the State Trial Court Improvement and Modernization Fund reimbursements as current-year revenues (GL Account 837011), instead of posting the cash receipt as a prior-year revenue adjustment (GL Account 899910).

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.

The *Trial Court Financial Policies and Procedures Manual, Eighth Edition, December 2016*, 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.

The *Trial Court Financial Policies and Procedures Manual, Eighth Edition, December 2016*, Policy No. Fin 15.02, 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).

The *Trial Court Financial Policies and Procedures Manual, Eighth Edition, December 2016*, 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 enable 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 Financial Policies and Procedures Manual, Eighth Edition, December 2016*, Policy No. Fin 7.02, section 3.0 states, in part, “A transaction between the court and any other government entity should be memorialized in an MOU.”

The Trial Court Chart of Accounts describes GL Account 899910 – Prior Year Revenue Adjustment as account “used to record revenue that was earned in the prior year but not accrued.”

Recommendation

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

FINDING 2— Payroll – Reporting Deficiencies

During our review of the Court’s payroll system, we noted the following accounting errors and control deficiencies:

- The Court’s Employee Benefits Liability Account (GL Account 374700) had an abnormal (debit) balance of \$132,987 as of June 30, 2018. We reviewed the Court’s GL and noted that the Court made payments for employee benefits in excess of accrued liabilities and expenditures. The account had a beginning debit balance of \$105,131 as of July 1, 2017. During FY 2017-18, the Court made disbursements totaling \$1,000,284 from the Employee Benefits Liability Account. However, the Court accrued only \$972,428 in

liabilities during the year. As a result, the General Fund's current-year and prior-year expenditures for Staff Benefits were understated by \$27,856, and \$105,131, respectively, and the fund balance was overstated by \$132,987 at year end.

We also found that the Court paid \$717 for medical insurance for one employee, but recorded expenditures totaling \$1,863 in the GL. As a result, expenditures and liabilities for employee health benefits were understated by \$2,205 for March 2018.

- We were unable to verify supervisory approval of employee timesheets. Although Court management informed us that employee timesheets were reviewed and approved each pay period, the Court was unable to provide records for the employee sample selection to validate time card approvals. System-generated time reports were provided, but they did not contain any proof (such as a signature) that supervisors had reviewed and approved employee entries.

The Court further indicated that it did not maintain a payroll policy and procedures manual documenting internal processing steps and requirements for both time reporting and payroll processing.

The *Trial Court Financial Policies and Procedures Manual, Eighth Edition, December 2016*, Policy No. Fin 1.03, section 6.4 states, in part:

1. The court must establish an effective system of internal review to ensure that all financial transactions are properly and accurately recorded and reported on a timely basis as required.
2. An effective system of internal review includes, but is not limited to, the following:...
 - d. Periodic (not less than monthly) reviews of applicable accounting records (relating to budgets, cash flow, timekeeping, payroll, procurement, cash collection, etc.) against original entries for accuracy.

Recommendation

We recommend that the Court:

- Implement internal controls to ensure that all account balances are accurately stated in the financial statements at year end;
- Perform periodic reconciliations of employee benefit expenditures and liabilities recorded in the GL against the payments made to the health insurance providers; and
- Develop and implement a Court payroll policy and procedures manual that addresses time reporting and payroll processing requirements.

FINDING 3— Expenditures – Internal Control Deficiencies

During our review of the Court's expenditure transactions, we noted the following deficiencies in the Court's procurement and disbursement process:

- The Court did not provide a purchase order, contract, or purchase requisition for six of 40 expenditure transactions selected for review to support payment terms;

- Seven of 40 invoices reviewed did not contain evidence of approval for payment;
- The Court incorrectly recorded expenditures totaling \$48 for mileage reimbursement paid to court interpreters in Court Interpreter Travel (GL Account 938502) instead of Court Interpreter – Mileage (GL Account 938509); and
- The Court did not properly record expenditures for court-appointed counsel. We reviewed three invoices and noted that \$1,584 of \$2,034 in payments made to vendors were related to services provided in the prior fiscal year as current-year expenditures instead of recorded in the Prior Year Expenditure Adjustment Account (GL Account 999910).

The *Trial Court Financial Policies and Procedures Manual, Eighth Edition, December 2016*, Policy No. Fin 1.03, section 6.3.3 states, in part:

5. Proper Authorization and 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.

The *Trial Court Financial Policies and Procedures Manual, Eighth Edition, December 2016*, 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.”

The *Trial Court Financial Policies and Procedures Manual, Eighth Edition, December 2016*, 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 enable 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 provides Prior Year Expense Adjustments (GL Account 999910) as the account to use for recording “expenses related to prior year activity.”

Recommendation

We recommend that the Court:

- Implement 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 to the Court; and
- Ensure that proper authorizations are obtained prior to processing invoices for payments.

**Attachment—
Superior Court's Comments
Concerning the Audit Results**



SUPERIOR COURT OF CALIFORNIA COUNTY OF SUTTER

1175 Civic Center Blvd., Yuba City, CA 95993

(530) 822-3309 FAX: (530) 822-3509

STEPHANIE M. HANSEL
COURT EXECUTIVE OFFICER

February 3, 2020

Jim L. Spano, CPA
Chief, Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250

Re: Response to the Audit of the Superior Court of California, County of Sutter

Mr. Spano:

The Court is in receipt of the State Controller's Office (SCO) audit report titled "Superior Court of California, County of Sutter, Validity of Recorded Revenues, Expenditures, and Fund Balances" for the period July 1, 2017, through June 30, 2018. Below are the Court's responses to the findings and recommendations contained in the audit report.

FINDING 1— Revenues – Reporting Deficiencies

We noted inaccuracies and inconsistencies in the recording of transactions during our testing of the Court's revenue accounts. We identified the following errors:

- The Court's FY 2017-18 financial statements reported \$5,121,237 of Trial Court Trust Fund (TCTF) revenues; however, the TCTF Distribution Schedules that we obtained from the Judicial Council of California (JCC) showed TCTF allocations to the Court in the amount of \$5,118,367. Reconciling the differences revealed posting errors related to prior-year revenues and accruals. Details are as follows:
 - The Court understated TCTF Operations revenue (GL Account 812110) of \$6,151 by recording a negative adjustment from the prior year's (FY 2016-17) TCTF Distribution Schedule #14 in the current year. The prior-year revenue negative adjustment should have been recorded in the Prior Year Revenue Adjustment Account (GL Account 899910).

Court Response: The Court agrees there was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on accounting support provided by the Judicial Council of California (JCC) as the Court's fiscal team consists of two people. Following direction given by JCC accounting support, revenues and reimbursements that should have been recorded in the Prior Year Revenue Adjustment Account (GL Account 899910) were recorded as then-current year revenues and reimbursements. Upon sharing the audit findings, JCC management stated that this direction was an effort to preserve multi-year trend analysis. JCC management advised that it would direct courts to record prior year revenue and reimbursements in the Prior Year Revenue Adjustment Account going forward.

- The Court duplicated a journal entry to accrue revenues and receivables at year-end for the TCTF – Returned Checks (GL Account 812152), Civil Assessments (GL Account 812159), Child Custody Evaluations (GL Account 812162), and Court Appointed Counsel for Children (GL Account 812163). Revenue and General Fund balances were thereby overstated by \$9,185.

Court Response: The Court agrees there was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on accounting support provided by the Judicial Council of California (JCC) as the Court's fiscal team consists of two people. Following direction given by JCC accounting support, no adjusting journal entries were made to correct the duplicate journal entry because as JCC staff stated, "...you will always be able to trace what happened and over a two year period of time the revenues will balance themselves out." Upon sharing the audit findings, JCC management committed to elevating the Court's level of service.

- The Court did not accrue revenue of \$164 at year-end from TCTF Distribution Schedule #14 for the TCTF Automated Record Keeping and Micro Graphics (GL Account 812160). Revenue and General Fund balances were understated by \$164.

Court Response: The Court agrees that it did not accrue \$164 out of \$157,670 at year-end from TCTF Distribution Schedule #14.

- The Court incorrectly recorded prior-year reimbursements of \$3,353 for Court Interpreter fees from the FY 2016-17 TCTF Distribution Schedule #14 as current year reimbursements, instead of posting to the Prior Year Revenue Adjustment Account (GL Account 899910).

Court Response: The Court agrees there was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on accounting support provided by the Judicial Council of California (JCC) as the Court's fiscal team consists of two people. Following direction given by JCC accounting support, revenues and reimbursements that should have been recorded in the Prior Year Revenue Adjustment Account (GL Account 899910) were recorded as then-current year revenues and reimbursements. Upon sharing the audit findings, JCC management stated that this direction was an effort to preserve multi-year trend analysis. JCC management advised

that it would direct courts to record prior year revenue and reimbursements in the Prior Year Revenue Adjustment Account going forward.

Additionally, the Court did not accrue reimbursements totaling \$6,205 from FY 2017-18 TCTF Distribution Schedule #14. As a result, reimbursements for the Court Interpreter Program were understated by \$2,852 and the General Fund balance was understated by \$6,205.

Court Response: *The Court agrees that \$6,205 out of \$157,670 for FY 2017-18 TCTF Distribution Schedule #14 was not accrued.*

- The AB 1058 Grant revenue for the Child Support Commissioner and Family Law Facilitator programs was understated by \$3,926. The Court incorrectly recorded reductions to prior-year reimbursements as adjustments to current-year revenue. Adjustments to prior year revenues should be recorded in the Prior Year Revenue Adjustment Account (GL Account 899910).

Court Response: *The Court agrees there was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on accounting support provided by the Judicial Council of California (JCC) as the Court's fiscal team consists of two people. Following direction given by JCC accounting support, revenues and reimbursements that should have been recorded in the Prior Year Revenue Adjustment Account (GL Account 899910) were recorded as then-current year revenues and reimbursements. Upon sharing the audit findings, JCC management stated that this direction was an effort to preserve multi-year trend analysis. JCC management advised that it would direct courts to record prior year revenue and reimbursements in the Prior Year Revenue Adjustment Account going forward.*

- For FY 2017-18, the Court did not include all reimbursable costs of administering its Enhanced Collections Program when calculating its full cost recovery. Additionally, we found accounting entries for costs and related reimbursements recorded in different fiscal years. 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. We calculated that the Court should have reported additional cost reimbursements of \$68,035. Details are as follows:
- The Court posted reimbursements to an incorrect fiscal period, thereby not matching reimbursements with the related costs of the same fiscal period. Fiscal-year program operating costs of \$37,430 for June 2018 were posted in July 2018 of the subsequent fiscal year and recorded as a reimbursement for FY 2018-19.

Court Response: *The Court agrees there was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on accounting support provided by the Judicial Council of California (JCC) as the Court's fiscal team consists of two people. Following direction given by JCC accounting support,*

revenues and reimbursements that should have been recorded in the Prior Year Revenue Adjustment Account (GL Account 899910) were recorded as then-current year revenues and reimbursements. Upon sharing the audit findings, JCC management stated that this direction was an effort to preserve multi-year trend analysis. JCC management advised that it would direct courts to record prior year revenue and reimbursements in the Prior Year Revenue Adjustment Account going forward.

- The Court did not include \$5,469 of direct costs for salaries, benefits and operating expenses recorded during the year-end adjustment period of FY 2017-18 when calculating the cost recovery reimbursement of its Enhanced Collections Program for the same period.

Court Response: *The Court agrees with this error. Court oversight led to the \$5,469 not being included in the reimbursement calculations.*

- The Court applied an incorrect indirect cost rate and excluded benefits from indirect cost calculations. The Court's approved indirect cost rate for FY 2017-18 was 22.67%. However, the Court applied a lower indirect cost rate of 20% to direct salaries charged to the Enhanced Collections Program.

By applying the approved indirect cost rate of 22.67% to both direct salaries and benefits charged to the program, the Court would have recovered \$25,136 in additional revenue.

Court Response: *The Court agrees this was an error that was corrected seven months prior to the initiation of this audit. The Court applied the 20% indirect cost rate that it used in its grant claims. Further, the Court misunderstood that it could only apply the indirect cost rate to salaries. The Court is now applying the approved 22.67% indirect cost rate to both salaries and benefits.*

- The Court did not transfer expenditures in the amount of \$2,455 for program indirect costs in May 2018 from the Trial Court Operations Fund (General Fund) to the Enhanced Collections Fund (Grant Special Revenue Fund); however, the Court correctly included these expenditures when computing the monthly recovery costs. As a result, the error affected only the ledger classification, not the revenue calculation.

Court Response: *The Court agrees this was a technical recording error.*

- The Court incorrectly recorded a prior-year (FY 2016-17) revenue allocation of \$12,301 for the State Trial Court Improvement and Modernization Fund reimbursements as current-year revenues (GL Account 837011), instead of posting the cash receipt as a prior-year revenue adjustment (GL Account 899910).

Court Response: *The Court agrees this was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on accounting support provided by the Judicial Council of California (JCC) as the Court's fiscal team consists of two people. Following direction given by JCC accounting support, revenues and*

reimbursements that should have been recorded in the Prior Year Revenue Adjustment Account (GL Account 899910) were recorded as then-current year revenues and reimbursements. Upon sharing the audit findings, JCC management stated that this direction was an effort to preserve multi-year trend analysis. JCC management advised that it would direct courts to record prior year revenue and reimbursements in the Prior Year Revenue Adjustment Account going forward.

Recommendation

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

Court Response: *The Court agrees with the recommendation. The Court has started using the Prior Year Revenue Adjustment Account (GL Account 899910) to record revenue and reimbursement from prior fiscal years.*

FINDING 2— Payroll – Reporting Deficiencies

During our review of the Court's payroll system, we noted the following accounting errors and control deficiencies:

- The Court's Employee Benefits Liability Account (GL Account 374700) had an abnormal (debit) balance of \$132,987 as of June 30, 2018. We reviewed the Court's GL and noted that the Court made payments for employee benefits in excess of accrued liabilities and expenditures. The account had a beginning debit balance of \$105,131 as of July 1, 2017. During FY 2017-18, the Court made disbursements totaling \$1,000,284 from the Employee Benefits Liability Account. However, the Court accrued only \$972,428 in liabilities during the year. As a result, the General Fund's current-year and prior-year expenditures for Staff Benefits were understated by \$27,856, and \$105,131, respectively, and the fund balance was overstated by \$132,987 at year end.

Court Response: *The Court agrees these were technical recording errors. Part of the JCC-provided accounting support includes payroll accounting support. We inquired with JCC payroll accounting support regarding this audit issue. They found that prior to transitioning to the Phoenix-HR payroll system, the Court's retiree health benefit contribution was being recorded in the Benefits Liability Account rather than the Retiree Health Benefit expense account, which led to the debit balance in the Benefits Liability Account. Since transitioning to the Phoenix-HR payroll system in October 2018, the Court's retiree health benefit contribution has been recorded in the Retiree Health Benefit expense account. The Court continues to work with JCC payroll support to reconcile the Benefits Liability Account and eliminate the debit balance.*

We also found that the Court paid \$717 for medical insurance for one employee, but recorded expenditures totaling \$1,863 in the GL. As a result, expenditures and liabilities for employee health benefits were understated by \$2,205 for March 2018.

Court Response: *The Court agrees this was a recording error. Upon learning of the error, the Court took immediate action to correct it.*

- We were unable to verify supervisory approval of employee timesheets. Although Court management informed us that employee timesheets were reviewed and approved each pay period, the Court was unable to provide records for the employee sample selection to validate time card approvals. System-generated time reports were provided, but they did not contain any proof (such as signatures) that supervisors had reviewed and approved employee entries.

Court Response: *The Court agrees that it could not provide system-generated reports showing supervisor approval of timesheets from a payroll system it no longer has access to. The SCO auditor suggested that the Court could have printed such system reports after each payroll period to verify the electronic approval by supervisors. This would have been an inefficient use of limited Court resources and public money since such system reports would have been electronically available had the Court still been on the prior payroll system.*

The Court further indicated that it did not maintain a payroll policy and procedures manual, which would be useful to document internal processing steps and requirements for both time reporting and payroll processing.

Court Response: *The Court agrees that it does not maintain a documented payroll policy and procedures manual. The Court will immediately begin developing a manual to document internal steps and requirements for processing timesheets and payroll.*

Recommendation

We recommend that the Court:

- Implement internal controls to ensure that all account balances are accurately stated in the financial statements at year end; and
- Perform periodic reconciliations of employee benefit expenditures and liabilities recorded in the GL against the payments made to the health insurance providers.
- Develop and implement a Court payroll policy and procedures manual that addresses time reporting and payroll processing requirements.

Court Response: *The Court agrees with these recommendations.*

FINDING 3— Expenditures – Internal Control Deficiencies

During our review of the Court's expenditure transactions, we noted the following deficiencies in the Court's procurement and disbursement process:

- The Court did not provide a purchase order, contract, or purchase requisition for six of 40 expenditure transactions selected for review to support payment terms;

Court Response: *The Court agrees that for six transactions related to emergency entrance screening, printing jury summons, annual maintenance of Business Reply Mail, payroll processing services, cleaning supplies, and a clerk recruitment announcement in the local newspaper totaling \$7,249 out of \$523,368 in expenditures reviewed it could not*

provide a purchase order, contract, or purchase requisition. The Court now has a contract for entrance screening and is in the process of entering into a contract for printing services. The Court's policy is to document all expenditures with a purchase requisition and all expenditures over \$500 with a purchase order.

- Seven of 40 invoices reviewed did not contain evidence of approval for payment;

Court Response: Although the Court agrees that seven invoices totaling \$19,592 out of \$523,368 in expenditures reviewed did not have signatures authorizing payment, the Court Fiscal Manager reviewed and approved the invoices for payment prior to posting in the Phoenix financial system.

- The Court incorrectly recorded expenditures totaling \$48 for mileage reimbursement paid to court interpreters in Court Interpreter Travel (GL Account 938502) instead of Court Interpreter – Mileage (GL Account 938509); and

Court Response: The Court agrees that \$48 out of over \$28,300 was incorrectly recorded. Upon learning of the error, the Court took immediate action to correct it.

- The Court did not properly record expenditures for court-appointed counsel. We reviewed three invoices and noted that \$1,584 of \$2,034 in payments made to vendors were related to services provided in the prior fiscal year as current-year expenditures instead of recorded in the Prior Year Expenditure Adjustment Account (GL Account 999910).

Court Response: The Court agrees this was a technical recording error. Notwithstanding that the Court is ultimately responsible for the accounting and reporting of its revenues and expenditures, the Court relies heavily on accounting support provided by the Judicial Council of California (JCC) as the Court's fiscal team consists of two people. Following direction given by JCC accounting support, expenditures that should have been recorded in the Prior Year Expense Adjustment Account (GL Account 999910) were recorded as then-current year expenditures. Upon sharing the audit findings, JCC management stated that this direction was an effort to preserve multi-year trend analysis. JCC management advised that it would direct courts to record prior year expenditures in the Prior Year Expense Adjustment Account going forward.

Recommendation

We recommend that the Court:

- Implement 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 to the Court; and
- Ensure that proper authorizations are obtained prior to processing invoices for payments.

Court Response: The Court agrees with these recommendations.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephanie M. Hansel". The signature is fluid and cursive, with the first name being the most prominent.

Stephanie M. Hansel
Court Executive Officer

cc: Grant Parks, Principal Manager
Audit Services
Judicial Council of California

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