JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

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ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING WITH CLOSED SESSION

December 5, 2018
12:15 p.m. - 1:15 p.m.
Conference Call

Advisory Body Members Present:	Hon. David Rosenberg, Hon. Peter Siggins, Hon. Susan Matcham, Hon. Mary Ann O'Malley, Mr. Kevin Harrigan, Ms. Tania Ugrin-Capobianco, Ms. Sherri Carter, Mr. Kevin Lane, Mr. Phil Jelicich (non-voting advisory member)
Advisory Body Members Absent:	
Others Present:	Mr. Grant Parks, Mr. Rick Beard, Ms. Kelly O'Dell, Mr. Richard Cabral, Mr. Robert Sherman

OPEN MEETING

Call to Order and Roll Call

The chair called the meeting to order at 12:15 p.m., and took roll call.

Approval of Minutes

Judge O'Malley moved to approve the minutes of the October 3, 2018 meeting. Mr. Kevin Harrigan seconded the motion. There was no further discussion of the minutes. Motion to approve passed by unanimous voice vote of the committee members present.

Mr. Grant Parks informed audit committee that no public comments were received for this meeting.

DISCUSSION AND ACTION ITEMS

Info Item 1

Report from Audit Services

Mr. Parks informed the audit committee that audit staff are in the process of closing its work at Glenn Superior Court and 5th District Court of Appeal. This work is currently going through a supervisory review. Audit staff will be contacting San Benito and 4th District Court of Appeal to schedule their upcoming audits. Audit staff also conducts first audit of Merced Superior Court under Court Grant Innovation Program.

The State Auditor's Office is working on its biennial procurement audit of five courts (Imperial, Los Angeles, Monterey, Santa Barbara and Santa Cruz). We expect to see these audits done sometime in

January 2019. The State Controller's Office (SCO) is near completion of their pilot audits of trial courts revenue, expenditures and fund balance. Additionally, the SCO will soon audit the Judicial Council's administration of revenues, expenditures and fund balance under its control. We are trying to finalize inter-agency agreements with SCO, which should be cleared up in a week or so.

Mr. Parks had conversation with Michael Roddy regarding potential changes to new rules for court interpreters. The Audit Committee had previously directed audit staff to suspend audit activities in that area pending revision of the existing rules. We had a planning meeting with Susan Miller from 6th DCA with respect to an appellate court manual. That meeting focused primarily on identifying key players and a scope of what a manual might actually entail. Mr. Parks expects there will be more discussions in that area in the next few weeks. Mr. Parks also had a discussion with Jake Chatters regarding JBSIS data quality standards. CEAC may be considering revised JBSIS data quality rules sometime in late January or early February.

Mr. Parks also wanted to share that he has been in discussions with SCO regarding TC31 audits on fine and fees revenue distribution. Some of these audits have had audit periods that are rather long (e.g. 8-10 years) because there is no well-defined records retention system for those audits. Mr. Parks was able to convince SCO that they should curtail their audit period. SCO agreed to go to a four-year audit period. Mr. Parks expects the Judicial Council's TCAS staff will be making conforming changes to the FIN manual regarding record retention practices.

Info Item 2.

General Discussion by Members of the Committee

Hon. David Rosenberg asked committee members if there was anything they wished to discuss. No one had items to discuss.

Action Item 1

External Audit Reports of San Mateo and Tehama Superior Courts' administration of revenues, expenditures and fund balance pursuant to Government Code, Section 77206(h) – State Controller's Office (Action Required)

Mr. Parks shared that auditors identified some cash handling issues in both courts and recommended that both should more proactively provide public notice for amounts in unclaimed trust (to begin the escheatment process). Overall, SCO concluded that both courts had complied with the governing rules regarding their court revenues, expenditures and fund balance.

> **Action:** Ms. Ugrin-Capobianco moved to approve Tehama audit report for posting (seconded by Ms. Carter). The motion passed by unanimous voice vote of the committee members present (Mr. Harrigan abstained).

Action: Ms. Ugrin-Capobianco moved to approve San Mateo audit report for posting (seconded by Judge Matcham). The motion passed by unanimous voice vote of the committee members present.

ADJOURNMENT

There being no further open meeting business, the meeting was adjourned to closed session at 12:45 p.m.

CLOSED SESSION

Item 1

Draft Audit Report of the Superior Court of California, County of Sacramento – Rule of Court 10.75(d) (6) *Non-final audit reports or proposed responses to such reports*

The committee's members discussed the draft audit of Sacramento Superior Court.

Action: Ms. Ugrin-Capobianco moved to approve and publicly post the audit report (seconded by Judge Matcham). Motion approved unanimously.

Item 2

Draft Audit Report of the Superior Court of California, County of Ventura – Rule of Court 10.75(d) (6) (Action Required) *Non-final audit reports or proposed responses to such reports*

The committee's members discussed the draft audit report for Ventura Superior Court.

Action: Judge O'Malley moved to approve and publicly post the audit report (seconded by Ms. Carter). Motion approved unanimously.

Adjourned closed session at 1:15 p.m.

Approved by the advisory body on enter date.

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 02/08/2019

Informational Item #1 – (No Action Required)

Report from Audit Services

Status Update – Judicial Council's Audit Services

Staffing & Workload

Audit staff continue to make progress implementing the annual audit plan approved by the committee at the beginning of the fiscal year. Today, we will be discussing our audits of Glenn Superior Court and the 5th DCA (the fourth and fifth audits we've released this year). Audit staff were at the 4th DCA and San Benito Superior Court during December and January. Our audit of Merced Superior Court's Court Innovations Grant (CIG) award has been drafted and is close to completion. I expect Merced Court's CIG audit will be ready for the committee's review at our next meeting. Audit staff are in the process of determining which other courts should be reviewed next based on their level of grant spending and overall progress. Finally, Audit Services expects to have a vacancy in one of its auditor positions, bringing the total number of court audit staff down to six. We don't anticipate significant disruption to the approved audit schedule.

Upcoming External Audits

State Controller's Office (SCO)

SCO auditors are currently conducting interviews and reviewing accounting transactions at the Judicial Council's offices in San Francisco. Similar to their court audits, SCO is evaluating whether the Judicial Council followed applicable state rules when managing the revenues, expenditures, and fund balances under its control (per GC 77206(i)). The SCO expects to complete its audit of the Judicial Council in the spring.

Miscellaneous Updates

Policies & Procedures Manual for Courts of Appeal

On January 25th, Doug Kauffroath, Jason Lopez (Deputy Director of Branch Accounting and Procurement) and Grant met with Susan Miller (CEO of the 6th DCA) regarding the

parameters for an appellate court manual, and discussed how Judicial Council staff can assist with compiling applicable policies and requirements (by subject area) for the appellate clerks' review and input.

JBSIS Data Quality Standards

In response to the audit committee's April 2018 letter, CEAC met on February 1st to discuss proposed data quality standards for JBSIS reporting (Attachment A). The proposed standards address two of the three concerns highlighted in the audit committee's letter. Specifically, the proposed standards provide courts with:

- Suggested best practices on what they should do to identify JBSIS reporting errors on a routine and non-routine basis, and

- a tolerable error threshold of 2%, beyond which courts would be required to resubmit the applicable monthly JBSIS report within 60 days.

Committee staff believe the proposed standards are a positive first step, but notes the suggested best practices are not required and there is no minimum requirement / baseline expectation for the courts to follow.

There may be value in CEAC adding a requirement that each court develop its own court-specific data quality plan (based on each court's available resources). Each court's plan would define how it will perform the "routine and non-routine reviews" currently contemplated in CEAC's draft JBSIS standards. These plans could then be filed with CEAC's JBSIS subcommittee so there is a central "clearinghouse" of different approaches and policies that any court can refer to when seeking to improve its local quality control procedures.

JUDICIAL COUNCIL OF CALIFORNIA

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MEMORANDUM

Date
December 13, 2018

To
Court Executives Advisory Committee

From
Judicial Branch Statistical Information System (JBSIS) Subcommittee, Jake Chatters, Chair

Subject
New requirements for amendment submission and new best practices for data quality review

Action Requested
For review and approval

Deadline
February 1, 2019

Contact
Emily Chirk, Senior Research Analyst
Budget Services, Statistics and Information Unit
415-865-7453 phone
emily.chirk@jud.ca.gov

Executive Summary

The Court Executives Advisory Committee (CEAC) should consider adopting new requirements for courts to amend data submitted to the Judicial Branch Statistical Information System (JBSIS) and to include expanded best practices in the JBSIS manual regarding data quality controls.

These recommendations are made in response to a letter sent to CEAC by the Audit Subcommittee and are designed to enhance the quality and confidence in JBSIS data. If approved, these guidelines would be incorporated into the JBSIS 3.0 manual that is scheduled for release in Spring 2019 and may be updated and revised from time to time as needed.

Recommendation

The Court Executives Advisory Committee should adopt new requirements for courts to make amendments to JBSIS data submissions when data errors exceeding a specified threshold are found. Specifically, JBSIS requirements should be established to require courts to:

1. Submit JBSIS data amendments upon identification of an error in a data submission that exceeds a 2% threshold.
2. Resubmit all JBSIS reports annually for fiscal years including in the upcoming year's funding model calculations. Courts submitting via the JBSIS portal should be encouraged to resubmit their data, but not required.

In addition, CEAC should consider adopting a set of data quality best practices to provide guidance to courts for data quality review prior to submitting data to JBSIS. These recommendations are made in response to a letter sent to CEAC by the Audit Subcommittee and are designed to enhance the quality and confidence in JBSIS data. If adopted, CEAC should consider directing the Office of Court Research staff to incorporate this information into the JBSIS 3.0 manual that is scheduled for release in Spring 2019.

Background

California Rules of Court 10.400 (a) states the purpose of JBSIS is: "to provide accurate, consistent, and timely information for the judicial branch, the Legislature, and other state agencies that require information from the courts to fulfill their mandates."

On April 17, 2018, Judge David Rosenberg, Chair of the Advisory Committee on Audits and Financial Accountability, wrote to Kimberly Flener, Chair of the Court Executives Advisory Committee, asking for the assistance of CEAC's JBSIS Subcommittee to consider various recommended enhancements to the JBSIS rules concerning data quality.

These recommendations were consistent with concurrent discussions of the JBSIS Subcommittee of CEAC concerning data submissions. The subcommittee discussed the topic at its August, October, and December 2018 meetings and have incorporated those discussions into the policy recommendations described here.

In addition, with the development of new JBSIS 3.0 filings definitions approved by the Judicial Council in January 2018, a new JBSIS manual is being developed to incorporate the new filings definitions; the addition of these data quality requirements and best practices in data reporting to the JBSIS manual are intended to further enhance JBSIS data quality.

Context for recommendation

The JBSIS subcommittee has focused its discussions related to policy-making on improving the accuracy, consistency, and timeliness of JBSIS data. The subcommittee met at various times in the last year to discuss principles of data quality and the standards by which courts must report JBSIS data. Through these discussions, the subcommittee, working within the framework provided by Rule 10.400, determines that JBSIS data submissions should meet the following criteria:

- **Accurate**: All data must accurately reflect actual events and should be reported in an agreed-upon format which conforms to JBSIS standards. Data should be captured in full. All mandatory data items within a data set should be completed and miscellaneous free-form codes will only be used where appropriate.
- **Consistent**: The data should be reported uniformly by courts using the JBSIS data definitions and reporting requirements specified in the JBSIS manual. JBSIS data definitions should be reflected in court procedure documents.
- **Timely**: Data should be collected and reported at the earliest opportunity.

Best Practices for Data Quality
The subcommittee also discussed practices that courts could engage in to improve data quality and integrity, including the following:

Define key roles in ensuring quality data integrity. While court leadership has ultimate responsibility for JBSIS data submissions, there are many individuals at a court that have a hand in ensuring JBSIS data quality (some individuals in a court may have more than one role).

Data Entry Staff are responsible for ensuring that the data collected is accurate, is as close to real-time as possible, and consistent with case management system entries.

Operations Managers, Supervisors, and Leads must ensure staff are aware of their responsibilities towards data quality. They must be certain to review data capture processes regularly, must ensure data entry staff are consistent in their approach to the quality of captured data, and must give feedback to data entry staff when discrepancies in data are identified.

Analytical Staff should ensure that data quality is monitored using audit and other operational reports and where anomalies are identified, that they are reported to court leaderships and raised with data entry staff and IT support for correction. They communicate with operations staff to ensure that data capture processes are reviewed regularly, clarify data definitions and reporting guidelines with Judicial Council staff, and communicate findings of quality review findings to court leadership.

IT Support is responsible for working with operations staff to ensure that the system configurations are accurate and collaborating with the analytical staff to implement technical solutions as needed.

Court Leadership are responsible for timely, accurate, and valid submission of JBSIS data. They must support and encourage a data quality culture amongst their teams and oversee the court's responsibility to resolve quality review findings.

Have methods of routine and non-routine review. Courts should run regular case management reports to check for data quality. Some examples of those reports could include:

- comparisons to prior periods (month to month or year to date to prior years); and
- review of exception reports that may identify data errors; and
- random sampling by pulling files to compare information in the paper file to what is entered in the case management system

Ensure CMS correctly maps to JBSIS definitions. As case management systems are upgraded or changed or as JBSIS definitions are revised to reflect changes in laws, the mappings should be reviewed to make sure the data are reported in the right JBSIS categories.

Ensure the court is reporting data based on the JBSIS definitions and not based on court practice. JBSIS definitions may not always match a court's particular way of processing cases. For example, some courts process Misdemeanor Driving Under the Influence cases in the traffic division whereas others process these matters as non-traffic misdemeanors. Regardless of where they are handled, these matters should be reported to JBSIS as traffic misdemeanors.

Train staff on the importance of JBSIS and data quality. JBSIS filings data are used in the budget allocation process and are audited as part of regular court audits; it is important that JBSIS data are accurate and that all court staff take responsibility for reporting JBSIS data correctly.

Include key data entry steps in procedures and other documents. Having all staff trained to report JBSIS data helps ensure better data quality.

To help achieve these standards, courts should consider adopting a data quality plan that would incorporate the above recommended practices. Further, these recommended practices will be incorporated in the JBSIS manual as best practices and updated and revised from time to time as needed.

Error Correction and Ensuring Data is Up to Date

To ensure data quality, clearer standards need to be established to require courts to address JBSIS data errors that result from any one of the following:

a. Documented errors in an audit report;
b. When the results of the annual data quality review by the Office of Court Research show that variation in data are the result of an error and not normal year-to-year differences;
c. Findings and results of local quality assurance efforts as described elsewhere in these guidelines; or
d. Ad hoc error discovery.

Error Quantification and Acceptable Error Rates

The error rate is determined by the difference of the reported value and the correct value, divided by the reported value. The magnitude of the error relative to the number of filings in a given period affected determines how courts should remedy the error. The JBSIS subcommittee determined that a 2% error rate met the criteria of being rigorous enough to ensure high data quality without posing an undue burden for courts.

The committee determined that an error rate or 2% or more in any one data element for a specific case type or cumulative across case types for one data element—limited at this time to filings, dispositions, trials, and time to disposition, when reported—should be established as the threshold above which courts must submit amended data correcting the report and that amended reports to resolve the error must be submitted within 60 days of error discovery.

If the cumulative error rate is below 2%, the size of the error is deemed 'tolerable'—small enough that it becomes optional for courts to submit amended reports. However, courts must still remedy the underlying problem that results in the error and pay close attention to future errors in these data elements as any small future error may result in a cumulative error of 2% or more (for example, a court identifies an error or 1.5% and does not amend its reports. Later a new error of 1% if found. The cumulative error is now 2.5% and would trigger the requirement to amend data.)

Error rates for other JBSIS data elements will be considered in future versions of these guidelines.

Error diagnosis and prevention

The court's obligation to provide accurate data goes beyond remedying the erroneous report: the court should take affirmative steps to diagnose the source of the error and to prevent making it in the future. Errors should be studied to determine the root cause and remedied in the following manner:

1. Intermittent user errors should result in a training plan for court staff that addresses the errors.
2. Any intolerable error (greater than 2%) with a root cause in written policies, procedures, guidelines, desk manuals, etc., should result in appropriate changes to those documents.
3. Any intolerable error with a root cause in technology **must** result in a plan to address the error.

Error amendment

Courts must amend intolerable errors within 60 days of identifying the error or prior to the reporting deadline at which the affected fiscal year's data become part of the dataset to be included in the Resource Assessment Study (RAS) model (a date determined each year by the

Office of Court Research), whichever is sooner. If the root cause analysis indicates that the source of the error is not unique to the most recent fiscal year, amendments must be made to all three fiscal years that pertain to the upcoming RAS model calculations.

In addition, courts that report their data via JBSIS interface must annually resubmit all JBSIS reports that will become part of the dataset to be in included in the Resource Assessment Study (RAS) model by the reporting deadline established each year by the Office of Court Research. Portal courts are encouraged to resubmit this data, but the Subcommittee does not recommend this as a requirement due to the significant staff effort involved in Portal resubmissions. Instead, Portal courts must pay extra attention to the 2% intolerable error reporting requirements.

In the event that intolerable errors are found, courts should notify the Office of Court Research as soon as practical. Courts should also provide documentation of resolution of intolerable errors and submit the amended reports within 60 days and can seek assistance from OCR in submitting amended reports. If tolerable errors are found, courts should notify the Office of Court Research if they intend to submit amended reports.

Conclusion

If approved by CEAC, these data amendment requirements will be incorporated into the JBSIS Manual as follows:

a. Upon identification of an error or 2% or more in any one data element for a specific case type or cumulative across case types for one data element, courts must submit amendment within 60 days.
b. Courts reporting their data via JBSIS will be required to resubmit their data for all reports annually on a date communicated by OCR for use in RAS and the annual Court Statistics Report.

Furthermore, if approved, JBSIS recommended data quality standards will be added to the JBSIS manual for reference.

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ADVISORY COMMITTEE ON AUDITS AND
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Meeting Date: 02/08/2019

Action Item #1 – (Action Required)

External Audit Report – State Auditor's Office

Requested Action:

- Discuss the external audit report and approve its posting on the www.courts.ca.gov website per California Rules of Court, Rule 10.63(c)(1).

Supporting Documents:

- ***Attachment B*** - California State Auditor's Report #2018-301: *Judicial Branch Procurement: Some Superior Courts Generally Followed Requirements but Could Improve Their Procurement Practices* (January 2019)

Summary:

Public Contract Code, Section 19210, requires the California State Auditor's Office to audit at least five judicial branch entities (JBEs), excluding the Judicial Council, every other year in order to evaluate each's compliance with the Judicial Branch Contract Law (sections 19201 through 19210 of the Public Contract Code). The audit often entails a review of a JBE's procurement practices including, but not limited to: adherence to competitive bidding requirements; vendor payment procedures; and the *Judicial Branch Contracting Manual*.

In January 2019, the State Auditor's Office issued its report on the following five JBEs.

- Imperial Superior Court
- Los Angeles Superior Court
- Monterey Superior Court
- Santa Barbara Superior Court
- Santa Clara Superior Court

The State Auditor found areas for improvement at all five superior courts. Specifically, the auditor reported findings in the following three main areas (noted in bold):

General Contracting Practices

- Missing or Incomplete Sole-Source Justifications – Two courts—Santa Barbara and Imperial—did not document management's approval for a non-competitive solicitation (one procurement at each court). Another court—Santa Clara—did not have a sole-source justification when entering into an agreement with a vendor for temporary staffing. Santa Clara was billed $778,000 for these services in fiscal year 2017-18.

- Lack of written agreement – Santa Clara lacked a written agreement defining the county-provided services to the court and its related costs. The court paid the county $582,000 in fiscal year 2017-18 without such an agreement.

- Demonstrating Fair & Reasonable Price or Best Value – When using a leveraged purchase agreement (LPA), a court is expected to determine whether the vendor's costs are "fair and reasonable" prior to proceeding with the contract. If the LPA was not previously established through competition, the court is encouraged to identify and review multiple LPAs and select one based on best value. The auditor found the following:

    - Santa Clara entered into to two LPAs without determining whether the prices it obtained were fair and reasonable.

    - Monterey entered into an LPA for internet services at a cost of up to $78,000 in fiscal year 2017-18, but the court did not demonstrate how it determined the price was fair and reasonable.

    - Los Angeles awarded a Master Services Agreement to two vendors following a competitive solicitation. The auditor believes the court should have evaluated "best value" when deciding which of the two vendors to use when subsequently placing an order under the agreement. The court disagreed with the finding and stated the JBCM does not impose a continuing obligation on the court to assess or document best value following a competitive solicitation.

Vendor Payment Practices

- Payment Authorization Weaknesses – Monterey had various employees approve vendor payments in amounts that exceeded their signing authority. The amounts authorized by Monterey's staff exceeded the established authority levels by a range of $2,000 to $107,000. The auditor also noted that Imperial allows court employees to process payments to certain vendors—such as

telecommunications—without appropriate prior written approval from the Court's management.

- Segregation of Duties – Santa Clara allowed the same employee to approve payment to a vendor and record the transaction in the court's accounting system. The auditor noted these activities should be segregated to different individuals so that no one person controls more than a single key aspect of a purchasing activity.

- Three-Point Match / Evidence of Goods Received – Santa Barbara relied on e-mails from court staff indicating that goods were received instead of matching evidence of receipt (such as a packing slip) to the vendor's invoice.

Purchase Card Transactions

- Exceeding transactional and daily limits on card use – Santa Clara exceeded transactional and daily limits on one of its purchase card transactions. Specifically, the Court used one of its cards to pay over $8,000 for IT staff training (when the transactional limit is $1,500 and the daily limit is $5,000). Otherwise, the auditors found the transaction was appropriate.

- Courts have established alternative transaction limits that are not documented – Courts can exceed the Judicial Council's transactional and daily purchase card limits if the court documents these policies in its local contracting manual. Imperial and Santa Barbara established limits that exceed those established by the Judicial Council, but it did not establish / document them in their local procedures.

The Courts' Views and Responses to The Audit

- Imperial – Did not formally respond to the audit.
- Los Angeles – Did not agree with the audit findings.
- Monterey – Agreed with the findings
- Santa Barbara – Agreed with the findings.
- Santa Clara – Agreed with the findings.

Audit Services will consider the results of this audit when performing its next audit at these courts. Committee staff recommends that the audit committee approve the public posting of this audit report on www.courts.ca.gov per ROC 10.63(c)(1).

Judicial Branch Procurement

Some Superior Courts Generally Followed Requirements but Could Improve Their Procurement Practices

January 2019

REPORT 2018-301

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Elaine M. Howle *State Auditor*

January 15, 2019
2018-301

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

Pursuant to Chapter 31, Statutes of 2013, the California State Auditor presents this audit report assessing five superior courts' compliance with the requirements of the California Judicial Branch Contract Law (Judicial Contract Law), Public Contract Code sections 19201 through 19210. The Judicial Contract Law requires the Judicial Council of California (Judicial Council) to adopt and publish a *Judicial Branch Contracting Manual*, which establishes the requirements and recommended practices for procurement and contracting that all judicial branch entities, including superior courts, must follow. The Judicial Council published its latest version of the manual in 2018.

This report concludes that the five courts we reviewed for this audit—the superior courts in Imperial, Los Angeles, Monterey, Santa Barbara, and Santa Clara counties—adhered to most required and recommended procurement practices that we evaluated, but they could improve. For example, the Santa Clara court did not have an agreement on file for certain services it purchased, and it lacked appropriate documentation for three other contracts. The other four courts also lacked appropriate documentation for one contract each. In addition, staff at the Monterey court approved seven payments that exceeded their payment authorization limits by amounts ranging from $2,000 to more than $107,000. We also identified one instance in which the Imperial court processed a payment without appropriate prior written approval, and the Santa Barbara court's payment process lacked a documentation step that would increase the court's assurance that payments are appropriate.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
California State Auditor

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SUMMARY

For this fourth biennial audit of the contracting and procurement practices of California superior courts, we reviewed the superior courts in Imperial, Los Angeles, Monterey, Santa Barbara, and Santa Clara counties. We determined that these five courts adhered to most of the required and recommended contracting and procurement practices for which we tested; however, they could make certain improvements to ensure that they have appropriate controls in place and receive the best value for their procurement dollars. We reviewed the selected courts' procurement practices related to contracts, payments, and purchase card transactions. This report concludes the following:

All Five Courts Could Improve Their Contracting Practices

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We reviewed 12 contracts at each of five courts and found varying levels of noncompliance with appropriate contracting practices: Santa Clara did not have an agreement on file to support a $582,000 services payment that it made, and it lacked appropriate supporting documentation for three additional contracts, including one for $778,000 to procure temporary staff. Although the other four courts generally followed the applicable procurement requirements that we tested, we identified certain issues at each one.

Four Courts Could Improve Their Processes for Handling Payments to Vendors and Recording Receipt of Goods and Services

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We found that some courts did not always use proper internal controls when processing payments and could therefore not ensure that they used public funds appropriately: the Monterey court did not always follow the payment authorization limits it established. For seven of the 18 payments we examined, court employees approved payments that exceeded their authorization levels by amounts ranging from $2,000 to more than $107,000. Further, the Santa Clara court did not always fully separate duties so that no one person controlled more than a single key aspect of payment processing. All five courts we examined routinely verified the delivery of goods and services before they paid vendors, but we identified certain limited exceptions.

Three Courts Could Improve Their Purchase Card Practices

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Several courts may have put public funds at risk when they violated the procurement policies included in the *Judicial Branch Contracting Manual* (judicial contracting manual): the Santa Clara court exceeded both single-transaction and daily limits for purchase card transactions, and the Imperial and Santa Barbara courts each established transaction limits for some users, but did not document those deviations as the judicial contracting manual requires.

Summary of Recommendations

The superior courts we reviewed should ensure that they award their contracts competitively when appropriate and that they assess and document best value and fair and reasonable pricing when warranted. Courts should also ensure that they have all agreements for goods or services documented in the procurement file.

The courts should ensure that payment duties are adequately separated. Courts should also require that staff submit packing slips or receipts to verify delivery before invoices are paid.

Finally, courts should ensure that staff are aware of, and abide by, the judicial contracting manual's purchase card transaction limits and should document in their local manuals as appropriate any alternative purchase card limits.

Agency Comments

The Monterey and Santa Barbara courts each agreed with our recommendations to them, while the Santa Clara court stated that it will take certain actions in response to our recommendations to it. The Los Angeles court disagreed with our finding pertaining to it. The Imperial court did not submit a written response to our report.

INTRODUCTION

Background

The California Judicial Branch Contract Law (Judicial Contract Law) went into effect in 2011. It requires all judicial branch entities to comply with the provisions of the Public Contract Code that are applicable to state agencies and that relate to the procurement of goods and services. It also requires the Judicial Council of California (Judicial Council)—which is the policymaking body of the California court system responsible for ensuring the consistent, independent, impartial, and accessible administration of justice in the State—to create a contracting manual for all judicial branch entities, such as superior courts, and for these entities to adopt local contracting manuals. In addition, the Judicial Contract Law directs the California State Auditor's Office (State Auditor), subject to legislative approval, to audit five judicial branch entities other than the Judicial Council every two years to assess their implementation of the Judicial Contract Law. This is our fourth audit of judicial procurement since 2011.

The Judicial Branch Contracting Manual

The Judicial Contract Law requires the provisions of the *Judicial Branch Contracting Manual* (judicial contracting manual) to be substantially similar to those of the *State Administrative Manual* and the *State Contracting Manual* and to be consistent with the Public Contract Code. The *State Administrative Manual* provides general fiscal and business policy guidance to state agencies, while the *State Contracting Manual* provides more specific guidance regarding procurement and contract management. The Public Contract Code contains, among other provisions, competitive bidding requirements for state agencies. The Legislature's objectives in enacting these laws included providing all qualified bidders with a fair opportunity to enter bids and eliminating favoritism, fraud, and corruption in the awarding of public contracts. In addition to establishing procurement requirements, the judicial contracting manual also contains recommended procurement practices for courts. Although those provisions are not mandatory, the judicial contracting manual states that courts should follow the recommended practices unless they have good business reasons for doing otherwise.

Like the Public Contract Code, the judicial contracting manual generally requires judicial branch entities to secure competitive bids or proposals for each contract, with certain exceptions, as the text box shows. For example, the judicial contracting manual exempts purchases under $10,000 from

Judicial Purchases That Are Exempt From Competitive Bidding Requirements

- Purchases under $10,000.
- Emergency purchases.
- Purchases from government entities.
- Legal services.
- Purchasing through certain leveraged procurement agreements.
- Purchases from business entities operating community rehabilitation programs.
- Licensing or proficiency testing examinations.
- Purchases through local assistance contracts.
- Sole-source purchases.

Source: Judicial contracting manual, August 2018.

Sole-Source Procurement

Under a sole-source procurement, only one vendor is afforded the opportunity to provide the goods or services. Before a court enters a sole-source procurement, it must request use of the sole-source approach, and an appropriate court authority (such as the presiding judge or court executive officer) must approve the request. The request should include the following information:

- Description of the goods and services to be procured.
- Explanation of why the goods and services cannot be procured competitively.
- Description of the effort made to solicit competitive bids, if any.
- Documentation that the pricing offered is fair and reasonable.
- Explanation of special factors affecting the cost or other aspect of the procurement, if any.

Source: Judicial contracting manual, August 2018.

Leveraged Procurement Agreement

A leveraged procurement agreement allows multiple entities to make purchases in order to take advantage of their combined buying power to reduce prices, improve terms and conditions, or improve procurement efficiency. The judicial contracting manual recommends that courts determine whether pricing is fair and reasonable when using leveraged procurement agreements because the courts may be able to obtain better prices by negotiating directly with the vendors or by conducting competitive procurements.

Source: Judicial contracting manual, August 2018.

competitive bidding requirements as long as a court determines that the price is fair and reasonable. State procurement rules and the judicial contracting manual also do not require competitive bids for contracts for emergency purchases or for contracts that are with governmental entities.

The judicial contracting manual also allows for several types of noncompetitive procurements. Two types that judicial branch entities can use are sole-source procurements and certain leveraged procurement agreements (leveraged agreements). A sole-source procurement is one in which an entity affords only one vendor the opportunity to provide goods or services, as the text box describes.

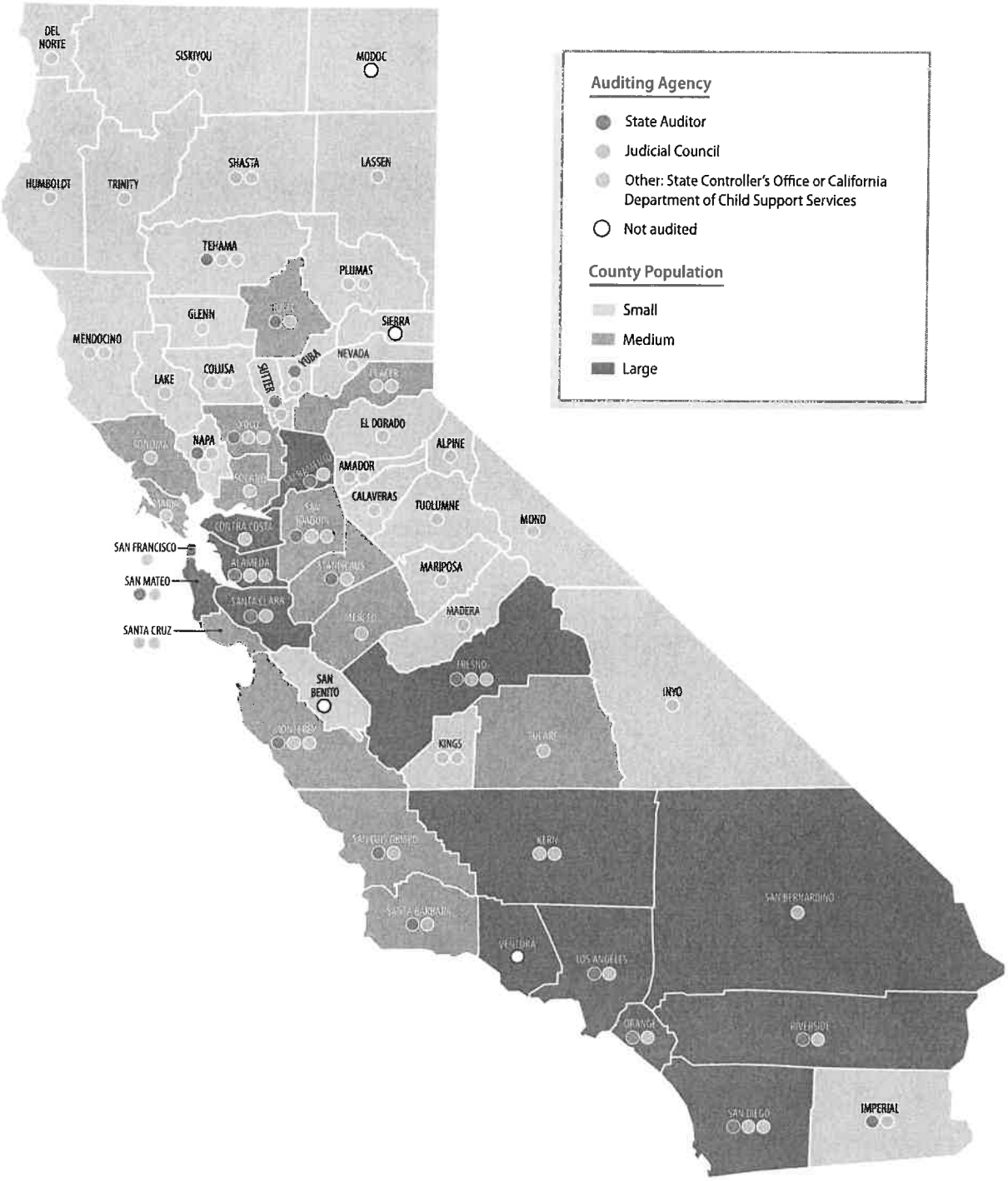
An entity can use a leveraged agreement to purchase goods and services from certain vendors on the same or substantially similar terms without having to seek competitive bids, as the text box explains. The Department of General Services administers some leveraged agreements for use by state agencies and local governments so that they may buy directly from suppliers through existing contracts and agreements. The judicial contracting manual includes a process for using leveraged agreements, but it recommends that judicial branch entities consider whether they can obtain better pricing or terms by negotiating with vendors or soliciting competitive bids.

Audits of California Superior Courts

Including this report, we have issued four audit reports covering procurement practices at 21 of the State's 58 superior courts since the Judicial Contract Law went into effect in 2011. We based our selection of the courts we examined on factors including a court's size, total volume of contracts, previous audits or known deficiencies, and significant or unusual changes in management. We selected only courts we had not already audited.

California's superior courts are also subject to audit from several other agencies. The Office of Audit Services of the Judicial Council conducts court audits. Likewise, the California State Controller's Office's Division of Audits, which performs independent audits of government agencies that spend state funds, also conducts audits of superior courts. Finally, the California Department of Child Support Services—which works with parents and guardians to ensure children and families receive court-ordered financial and medical support—also conducts such audits. Since 2011 entities have conducted a total of 93 audits of California's superior courts. The Figure on the following page shows a map of California's 58 counties, their relative population sizes, the superior courts that we have audited, and those that have been audited by the Judicial Council or another independent body since 2011.

Figure
Most Superior Courts Have Been Audited Since 2011



Source: Analysis of the State Auditor's audits and the Judicial Council's record of audits performed by it, the State Controller's Office, and the California Department of Child Support Services.

All Five Courts Could Improve Their Contracting Practices

Key Points

- The Santa Clara court did not always follow appropriate contracting practices. It did not have an agreement on file to support $582,000 it paid for services that the county provided in fiscal year 2017–18. It also lacked appropriate supporting documentation for three non-competitively bid contracts, including one for $778,000 to procure temporary staff.

- Although the other four courts we visited generally followed the applicable procurement requirements that we evaluated, we identified certain issues at each one. For instance, the Los Angeles court lacked documentation showing that it had acquired goods at the best value for one contract, while the Monterey court lacked documentation of fair and reasonable pricing for one contract. Furthermore, the Santa Barbara and Imperial courts each lacked written justification for entering into a sole-source contract.

The Santa Clara Court Did Not Always Follow Applicable Contracting Practices

According to the judicial contracting manual, each court should establish contracting processes and levels of approval authority that are consistent with applicable law and the rules of the court and that promote responsible stewardship of public funds. The manual further recommends that courts determine and document whether prices are fair and reasonable when following a noncompetitive process. We reviewed 12 contracts at each of the five county superior courts we audited. Although the courts generally adhered to most of the contracting provisions we tested, we observed that the Santa Clara court did not always follow applicable contracting practices.

For instance, the Santa Clara court lacked a written agreement—such as a contract—to substantiate $582,000 for services that Santa Clara County billed to it for fiscal year 2017–18. A 2016 memo from the county executive officer indicated that after the Santa Clara court separated its operations from those of the county in July 1997, the county continued to provide various services to the court in accordance with an agreement between the two. The memo also stated that the agreement was renewed and extended through June 2016; however, the Santa Clara court could not provide a copy of an agreement covering fiscal year 2017–18. Without an agreement, the court has not demonstrated proper stewardship of public funds and has less assurance that it obtained and paid for agreed-upon services from the county.

In three other instances, Santa Clara court staff failed to adhere to contracting requirements, thereby reducing assurance that the prices the court paid were fair and reasonable. In the first case, in fiscal year 2015–16, the court appears to have

neither competitively awarded a contract for temporary staff nor justified contracting for the staff as a sole-source procurement. A purchase order for the services in fiscal year 2017–18 shows an amount of $778,000. According to the court's general services manager, the court's human resources department contracted for temporary workers for a project without obtaining bids. The manager stated that once the court's procurement/contracts and accounting departments learned of the hiring, staff scrambled to create an agreement even though the human resources department had not created a sole-source justification document. Thus, the court failed to competitively award the contract or to document its reason for using a sole-source procurement, as the judicial contracting manual requires.

In the two other cases, the Santa Clara court entered into leveraged procurement agreements without documenting whether it determined the prices were fair and reasonable. The judicial contracting manual recommends that after identifying a leveraged procurement agreement, courts determine fair and reasonable pricing and also consider negotiating with vendors or conducting competitive bidding to obtain better pricing. The text box describes methods for determining whether a price is fair and reasonable. The general services manager for the Santa Clara court explained that when the court needs to make certain procurements, he identifies agreements he can leverage on the Judicial Council's website. According to the general services manager, a previous information technology (IT) director for the court was part of the evaluation team for one of the two leveraged agreements in question and therefore had knowledge of the pricing for one of these contracts. In the other instance, the Santa Clara court extended an existing agreement for collection services for another year and an additional $1.35 million. However, the court's procurement files included no documentation that the court assessed whether either of the leveraged agreements' prices was fair and reasonable.

Methods for Determining Whether a Procurement Price Is Fair and Reasonable

The *State Contracting Manual* describes the following methods that help ensure buyers obtain fair and reasonable prices:

- Performing a price comparison.
- Using prices from an established catalog or market pricing media.
- Using prices set by law or regulation.
- Using historical pricing.
- Using an experienced buyer who knows that the price is fair and that the cost of verification would exceed any benefit.

Source: Department of General Services' *State Contracting Manual*, Volume 2.

The Los Angeles, Monterey, Santa Barbara, and Imperial Courts Could Improve Their Contracting Practices

Although the other four courts we visited generally adhered to applicable contracting requirements, we identified certain documentation issues related to their contracting practices.

For example, the Los Angeles court did not demonstrate that it obtained best value for $253,000 in goods it acquired under one contract in fiscal year 2017–18. In 2012 the court selected two vendors for a master services agreement, which is a type of leveraged agreement. However, the court did not specify how its officials would select which of the two vendors to use when placing an order under the agreement other than the court would select the vendor at its discretion. Although the judicial contracting manual does not identify the specific procedures a court should follow when making purchases under a leveraged agreement the court created, an underlying premise of the manual is that courts should obtain best value when acquiring goods and services. We therefore expected the Los Angeles court to have included in its procurement files evidence of which of the agreement's two vendors offered the best value for the goods acquired; however, it did not.

In addition, during our audit period, the Monterey court used a 2013 leveraged procurement agreement to obtain Internet services worth up to $78,000 in fiscal year 2017–18. Guidance for agencies using this agreement strongly encourages them to obtain multiple quotes for services to obtain the best price. Furthermore, the judicial branch manual recommends that agencies using leveraged agreements determine whether pricing is fair and reasonable and document how they selected leveraged agreements, including the best-value criteria they used. However, Monterey's procurement file does not show that the court performed these steps, indicating that the court may have missed an opportunity to procure Internet services at a lower cost. Using older agreements heightens the risk that a court may not be receiving the best value for its procurement dollars.

We found similar issues at the Santa Barbara and Imperial courts. When we tested three sole-source contracts at the Santa Barbara court, we found that the procurement file for one contract—worth about $18,000 in fiscal year 2017–18—did not contain an approved sole-source justification. Likewise, one of the three sole-source contracts—valued at $194,000 over three years—that we tested at the Imperial court did not have a sole-source justification on file for a renewal that the court signed in fiscal year 2017–18.

Recommendations

The Santa Clara court should ensure that it supports all payments with a contract or purchase order that clearly states the terms and pricing for any goods or services received. The court should also ensure that it competitively awards its contracts as appropriate and that it properly documents its fair and reasonable pricing determinations, including those for applicable leveraged agreements.

The Los Angeles court should ensure that it documents best value in its procurement files when selecting vendors from leveraged procurement agreements.

The Monterey court should ensure that it documents fair and reasonable pricing from vendors in its procurement files.

The Imperial and Santa Barbara courts should ensure that they document their justifications and approvals for using noncompetitive procurements.

Four Courts Could Improve Their Processes for Handling Payments to Vendors and Recording Receipt of Goods and Services

Key Points

- Although the Monterey court had payment authorization limits in place, it did not always follow them. For seven of the 18 payments we examined, court employees approved payments that exceeded their authorization levels by amounts ranging from $2,000 to more than $107,000.
- The Santa Clara court did not always fully separate duties in payment processing. For three of the 18 payments we examined, the court's director of finance approved the invoices for payment and also posted them for payment in the court's financial system.
- All five courts we reviewed routinely verified the delivery of goods and services before they paid vendors, but we identified certain limited exceptions at the Imperial and Santa Barbara courts.

Although the Monterey Court Had Payment Authorization Limits in Place, It Did Not Always Follow Them

Following proper internal controls over the processing of payments is a critical step for ensuring that courts use public funds appropriately. However, when we reviewed 18 payments at each of the five superior courts we audited, we found that the Monterey court did not consistently comply with its own payment authorization limits. Specifically, the Monterey court's local contracting manual includes dollar limits up to which it authorizes court employees in specified positions to approve invoices for payment. Adhering to such authorization limits increases the court's assurance that it makes appropriate payments. However, the court did not consistently follow these authorization limits during fiscal year 2017–18. Six court staff members who approved seven of the 18 payments (39 percent) we reviewed did so for amounts above their authorization limits. The payments exceeded the staff members' authorization limits by amounts ranging from $2,000 to more than $107,000. For example, the court's chief information officer approved a $157,500 payment even though he only had the authority to approve payments up to $50,000.

This lack of consistent adherence to the payment approval limits increases the court's risk of making inappropriate payments. The court's chief financial officer explained that in one of these instances, he approved a payment because the appropriate person was unavailable when the court needed to make the payment, although the court could provide no documentation that it authorized the chief financial officer to do so. The chief financial officer stated that the other six instances were the result of oversights on the part of the court. He also noted

that the court plans to remind staff who approve or process payments of individuals' limits and to cover the topic during future trainings.

The Santa Clara Court Did Not Always Fully Separate Duties in Payment Processing

We found that although the Santa Clara court provides its staff with payment process instructions, including a list of each individual's role and a flowchart illustrating the steps of the payment process, its internal controls do not cover one area. The *State Contracting Manual*, which provides guidelines to promote sound business decisions and practices for the State, notes that state entities should separate key duties and responsibilities for approving invoices and preparing payments. When courts make payments without separation of duties—meaning splitting responsibilities so that no one person controls more than a single key aspect of a purchasing activity—it increases the risk of improper expenditures, which then puts public funds at risk. However, staff at the Santa Clara court did not practice such separation of duties in certain instances.

Specifically, in three of 18 cases we reviewed at the Santa Clara court, the director of finance approved the invoices for payment and also posted them for payment in the court's financial system. The court's payroll manager noted that in the past, different individuals had approved and posted these three payments, and she was unsure why this process had changed. She stated that the court will work to ensure that in the future, different people approve and post payments.

The Imperial and Santa Barbara Courts Could Better Document the Receipt of Goods and Services

The judicial contracting manual states that before processing and releasing any payment to a vendor, a court should have documentation verifying that the vendor has provided the goods or properly performed the services for which the court is paying. At each of the five courts we audited, court staff routinely verified the delivery of goods or services before the courts made the payments we reviewed. However, we identified certain concerns at two of the courts. Specifically, an internal practice allowed the Imperial court to process one payment—$4,100 for telecommunications services—without the appropriate prior written approval. Staff explained that when a payment amount matches the contract amount, the court does not require an approval of the individual payment. This internal practice

contradicts the judicial contracting manual's guidance on documentation and bypasses a key opportunity to ensure the appropriateness of every payment.

At the Santa Barbara court, staff noted that although vendors may provide packing slips or receipts, the court does not require them when processing payments. The judicial contracting manual states that courts should inspect delivered goods and retain documentation of the inspection's results in a procurement file. According to an accounting supervisor, the Santa Barbara court currently has three methods to demonstrate the receipt of goods or services: a receipt, a packing slip, or an email from court staff verifying that they have received the goods or services. He indicated that the former chief financial officer required only an email as assurance that the court had received goods or services. The accounting supervisor acknowledged that such emails are a weakness in the court's payment process and that the court intends to reinstate the requirement for packing slips or receipts. This change would increase the court's assurance that its payments are appropriate. In contrast, the Monterey court has a useful policy as part of its vendor payment process in which an accounts payable staff member matches the details of an invoice to equivalent details on a packing slip, shipping order, or receiving report before the court approves payment for goods or services.

Recommendations

The Monterey court should revise its guidance regarding invoice approval limits to include a description of circumstances under which it will allow exceptions to such limits, and it should inform court staff of the revisions.

The Santa Clara court should establish and implement procedures to ensure that adequate separation of duties exists for procurement. These procedures should specifically prevent a single individual from both approving an invoice's amount and then also authorizing its payment.

To ensure the appropriateness of every payment, the Imperial court should require all invoices to receive approval before it processes their payment.

The Santa Barbara court should reinstate its previous requirement that staff submit packing slips or receipts before its payment of invoices.

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Three Courts Could Improve Their Purchase Card Practices

Key Points

- In one instance, the Santa Clara court exceeded the judicial contracting manual's purchase card transaction limit by almost $7,000 and its daily purchasing limit by nearly $3,400.
- The Imperial and Santa Barbara courts did not document purchase card transaction limits that deviated from the judicial contracting manual's guidelines, which specifically require such documentation.

The Santa Clara Court Exceeded Both the Transactional and Total Daily Limits in One Instance

Proper controls over purchase cards help ensure that courts use public funds appropriately. The state-administered procurement card program, CAL-Card, is available to all superior courts, although they are also allowed to use other purchase cards. The Imperial, Monterey, Los Angeles, and Santa Barbara courts use CAL-Cards; the Santa Clara court uses a different vendor for its purchase cards. When courts make payments that exceed approved transaction limits on purchase cards or do not follow judicial contracting manual policies, they may put public funds at risk. Further, because courts often provide purchase cards to individuals so they can buy directly from vendors, the cards may be subject to abuse if the courts do not properly oversee their use.

We tested purchase card transactions at two county superior courts—Monterey and Santa Clara—because their total purchase card payments for fiscal year 2017–18 exceeded either $100,000 or 10 percent of the court's procurements during the fiscal year. We did not find any exceptions in our review of the Monterey court's purchase card transactions; the text box describes the strong internal purchase card controls we found at the Monterey court. However, we did find one instance in which the Santa Clara court made a purchase card payment that exceeded the judicial contracting manual's transactional and total daily limits.

The Santa Clara court has five purchase cards, four of which are dedicated to certain categories, such as staff training and travel, and the fifth of which is assigned to the court's chief executive officer. When we tested six purchase card payments, we found that an $8,390 purchase of staff IT training exceeded both the judicial contracting manual's $1,500 per-transaction maximum and its suggested daily purchase limit of $5,000, although the purchase was otherwise appropriate. By not consistently following the judicial contracting manual's required and suggested transaction limits, the court increases

The Monterey Court's Controls Over Its Purchase Card Transactions

- The Monterey court has five purchase cards, each of which has an automatic transaction limit of $1,500.
- All procurements made using purchase cards must be initiated by approved requisitions.
- The Monterey court's alternative procedure for making travel arrangements using purchase cards is documented, as the judicial contracting manual requires.

Source: Analysis of documents provided by the Monterey court.

the risk that its staff will use purchase cards inappropriately. Although the payroll manager asserted that the Santa Clara court does not have a transaction limit for this card, the court did not include this information in its local contracting manual as the judicial contracting manual requires.

The Imperial and Santa Barbara Courts Did Not Document Purchase Card Transaction Limits That Deviated From the Judicial Contracting Manual's Guidelines

Although we did not test individual purchase card payments at the Imperial, Los Angeles, or Santa Barbara courts because the total payments did not meet our review threshold, we identified concerns about purchase card transaction amount limits at the Imperial and Santa Barbara courts that exceeded the judicial contracting manual's recommended limits. The manual states that courts can use purchase cards for a maximum of $1,500 per transaction. However, the Imperial court established single-transaction limits of $2,000 for four of its nine purchase cards, of $5,000 for three of its purchase cards, and $10,000 for one of its purchase cards. Similarly, the Santa Barbara court established a transaction limit of $2,500 for three of its seven purchase cards.

Although the judicial contracting manual allows courts to establish purchase card procedures that deviate from its policies, the manual states that courts should document any such alternative procedures and incorporate them into their local manuals. The Los Angeles court, for instance, established an alternative procedure to increase its purchase card transaction limit to $5,000, which it documented in its local manual and in its policies and procedures.

At the time of our audit, neither the Imperial nor the Santa Barbara court had incorporated their alternative procedures into their local manuals. Without properly documented or built-in transaction limits, the Imperial and Santa Barbara courts increase the risk that their staff will use purchase cards inappropriately. Staff at the two courts noted that they will update their local manuals to reflect their alternative procedures for purchase card transaction limits.

Recommendations

The Santa Clara court should ensure that its staff abide by the judicial contracting manual's purchase card transaction limits, or it should document an alternative transaction limit in its local contracting manual.

The Imperial and Santa Barbara courts should document their alternative purchase card procedures regarding transaction limits in their local manuals.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

ELAINE M. HOWLE, CPA
California State Auditor

January 15, 2019

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APPENDIX

Scope and Methodology

We conducted this audit pursuant to the audit requirements contained in the Judicial Contract Law. Our audit focused on the superior courts in Imperial, Los Angeles, Monterey, Santa Barbara, and Santa Clara counties. The table below lists the audit's objectives and the methods we used to address them.

Table
Audit Objectives and the Methods We Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant state laws and rules, as well as each court's relevant policies and procedures.
2	Based on risk factors specified in the California Judicial Branch Contract Law (Judicial Contract Law), Public Contract Code section 19210(a)(1), identify five judicial branch entities excluding the Judicial Council of California for audit to assess their implementation of the Judicial Contract Law.	Evaluated all 58 California superior courts and ranked them based on significant changes that have occurred since 2016 that may impact compliance with the Judicial Contract Law; the amount of time since it was last audited and previous audit results or known deficiencies; significant changes in management or employee turnover; the complexity and size of the courts and its existing contracting practices and procedures; the volume and type of procurements made by the court relative to total judicial branch procurements and to county population; and substantial changes to the number and amount of total procurements in the previous year.
3	For the five superior courts selected for audit:	
	a. Determine whether each court has developed its own local contracting manual, and assess its conformance to the judicial contracting manual.	Reviewed each court's local contracting manual applicable for fiscal year 2017–18, compared provisions to the judicial contracting manual applicable for the same year, and queried court staff regarding any questionable discrepancies. Each of the five courts we reviewed had a local manual that generally conformed to the judicial contracting manual, as required. At the time of our fieldwork, the Santa Clara Court had updated its local manual to align to the most recent judicial contracting manual, published in August 2018; similarly, the Los Angeles and Santa Barbara courts' staff told us they had begun updating their local manuals to align to the August 2018 judicial contracting manual, and the Monterey court's staff said it planned to update its local manual in early 2019. Staff at the Imperial court told us it had not yet established a process for updating its local contracting manual to align to the August 2018 judicial contracting manual.
	b. Assess each superior court's internal controls over contracting and procurement and determine whether the court followed those controls.	Reviewed each court's local contracting manual and interviewed key staff regarding the court's procurement processes. We judgmentally selected 12 contracts at each court from the contracts that were active during fiscal year 2017–18, as reported in the Judicial Council's *Semiannual Report on Contracts for the Judicial Branch* (semiannual reports) posted on the Judicial Council's website. We also judgmentally selected 18 payments at each court from the payments each court reported to us for fiscal year 2017–18. We tested each of these contracts and payments and queried court procurement staff regarding any exceptions.
	c. Assess each superior court's compliance with key elements of the judicial contracting manual and its local contracting manual and procedures, including those related to competitive bidding, sole-source contracting, and payment and deliverable review and oversight.	
	d. Evaluate each superior court's contracts to determine whether it may have inappropriately split contracts to avoid obtaining necessary approvals or complying with competitive bidding requirements.	Reviewed the list of contracts that were active at each court during fiscal year 2017–18, as reported in the semiannual reports posted on the Judicial Council's website, to identify instances in which courts might have split a contract into multiple contracts to avoid competitive bidding or necessary approval requirements. We followed up with court staff as needed regarding additional clarification on the items we tested. We did not find evidence of contract splitting at any of the five courts we reviewed.

continued on next page . . .

AUDIT OBJECTIVE	METHOD
e. Review the appropriateness of each superior court's state purchase card (CAL-Card) or other court-issued purchase card transactions when those transactions exceed a total of $100,000 or 10 percent of all reported procurement payments for a one-year period.	Determined whether each court used purchase cards to make purchases and reviewed the monthly statements for these cards. We tested a judgmental selection of six transactions at each of the two courts whose purchase card transactions exceeded our threshold of $100,000.

Sources: Analysis of the Judicial Contract Law and of information and documentation identified in the table column titled *Method*.

Assessment of Data Reliability

In performing this audit, we relied upon electronic data extracted from the information systems of the Judicial Council and three of the superior courts we audited. Specifically, to select contracts for testing the superior courts' compliance with procurement procedures, we used the Judicial Council's semiannual report for the periods from July 2017 through December 2017 and from January 2018 through June 2018.

The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. To gain assurance that the population from which we selected contracts for our compliance testing was complete, we selected six contracts from each of the five superior courts—for a total of 30 contracts—and traced them to the semiannual reports. We noted no exceptions to completeness for the contracts we selected from the Monterey court's iShare/Procurement System or those we selected from the Santa Barbara court. However, we found that the reports did not include one contract each that we selected from the Imperial Court, the Los Angeles court's Novatus system, or the Santa Clara court. We therefore deemed the information in the semiannual reports for the Imperial, Los Angeles, and Santa Clara courts incomplete. Although we recognize that these limitations may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

SHERRI R. CARTER
EXECUTIVE OFFICER / CLERK

111 NORTH HILL STREET
LOS ANGELES, CA 90012-3014

Superior Court of California
County of Los Angeles

December 17, 2018

Elaine M. Howle*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for the opportunity to review the Bureau of State Audits 2018 Procurement Report. As outlined below, the Superior Court of California, County of Los Angeles (Court) does not agree with the audit findings.

Finding – Los Angeles Court could not provide documentation that it obtained the best value for the $253,000 in goods acquired under one contract in fiscal year 2017-18.

The Judicial Branch Contracting Manual (JBCM) does not impose a continuing obligation on Judicial Branch Entities to assess and/or document best value when issuing a Purchase Order (PO) from a Court contract that has been competitively bid by the Court. This is true even when multiple contracts are awarded through a single solicitation, as authorized by JBCM Chapter 4, Section 4.2.D. The procedure set forth in Section 4.2.D does not include a requirement that the Court indicate an additional method for selecting between the awarded vendors when ordering services off of the Court agreements. ①

The two agreements awarded in 2012 were the result of a full competitive procurement process that included analysis and consideration of pricing submitted by both vendors as part of their proposals and followed the protocol for making multiple awards through a single solicitation. The pricing submitted by each vendor was determined to be competitive during the solicitation evaluation process and was incorporated into the final agreement with each vendor. As an added precaution, the Court's contracts included a Most Favored Public Entity provision that requires the contractor to extend lower pricing to the Court if the same lower pricing is offered to another federal, state, county or municipality. This provision provides added protection to ensure that the Court continues to receive the best competitive pricing under these agreements.

* California State Auditor's comments begin on page 23.

In the context of competitive procurements, "best value" is a standard for awarding the initial contract and it necessarily includes criteria other than pricing. However, once the Court establishes a competitively bid contract, there is no JBCM requirement for a continued assessment (or documentation) of best value for each PO issued to an awarded vendor.

- **Recommendation: The Los Angeles court should ensure it documents best value pricing in its procurement files when selecting vendors from master services agreements.**

  In full accordance with the JBCM, the Court does follow this practice in all situations where it is required per the JBCM.

Finding – Failure to report contracts as part of the semiannual reports as required by the JBCM.

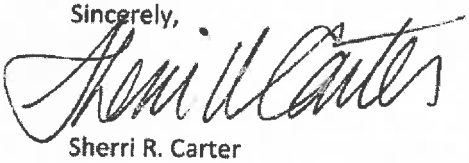
All Court contracts that have POs associated with them are included by the Court in the judicial branch financial system (SAP) and should be automatically reported by the Judicial Council of California (JCC) as part of these reports.

During the audit onsite visit, the contracts outlined below were identified as possibly missing from the JCC semiannual report. The POs for these transactions were issued by the Court through the SAP system and should have been automatically included by the JCC in the semiannual report. ②

1. 2014-028-A2 – First 1 year extension re Structured Cabling Master Agreement
2. 2015-053A1 – QC Services for Mental Health; Extension

Please include this response in your final 2018 Procurement Report. If you have questions or need additional information, please do not hesitate to contact me.

Sincerely,



Sherri R. Carter

c: Presiding Judge Daniel J. Buckley
Jeremy D. Cortez, Chief Deputy of Finance and Administration

COMMENTS

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE SUPERIOR COURT OF CALIFORNIA, COUNTY OF LOS ANGELES

To provide clarity and perspective, we are commenting on the response to our audit report from the Superior Court of California, County of Los Angeles (Los Angeles court). The numbers below correspond to the numbers we placed in the margin of the Los Angeles court's response.

We appreciate the Los Angeles court's comments and have clarified our finding and recommendation to better reflect our position. We stand by our recommendation that the court should ensure it documents best value when selecting vendors from which it acquires goods and services under leveraged procurement agreements. ①

Based on additional information provided by the Los Angeles Court, we amended the text to state that the semiannual reports did not include one contract from the Los Angeles court's Novatus system. ②

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SUPERIOR COURT OF CALIFORNIA
COUNTY OF MONTEREY
240 Church Street, Salinas, California 93901 - (831) 775-5400
www.monterey.courts.ca.gov

LYDIA M. VILLARREAL
Presiding Judge
2018 - 2020

JULIE R. CULVER
Asst. Presiding Judge

CHRIS RUHL
Court Executive Officer

December 17, 2018

Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

RE: Report Number 2018-301, *Judicial Branch Procurement*

Dear Ms. Howle,

The Superior Court of California, County of Monterey has reviewed the findings and recommendations contained in the California State Auditor's draft report regarding judicial branch procurement. We have detailed below our responses to the two recommendations contained in the report, to both of which the court agrees. The court has already begun to take action in response to the recommendations and intends to have fully implemented all corrective actions by the end of February 2019.

Recommendation #1: The Monterey court should ensure it documents fair and reasonable pricing from vendors in its procurement files.

Response: The court agrees with the recommendation. The court will ensure its local contracting manual (LCM) supplements and contains all relevant sections of the Judicial Branch Contracting Manual that cover fair and reasonable pricing. In addition, in regard to leveraged purchase agreements, the court will revise its LCM to improve the court's processes in determining and documenting that the appropriate steps have been taken when ascertaining whether the vendor's prices are fair and reasonable.

Planned implementation date: February 28, 2019

Recommendation #2: The Monterey court should revise its guidance regarding invoice approval limits to include a description of circumstances under which it will allow exceptions to such limits and inform court staff of the revisions.

Response: The court agrees with the recommendation. The court will update and revise its LCM to clarify general approval authority limits as well as specific categorical approval authority limits, and the process and procedures related to the granting of exceptions to those limits. The court's Finance Division staff will also initiate regular annual trainings for all relevant court staff as well as as-needed trainings for new

relevant court staff to communicate these revisions, as well as maintain staff awareness of these policies in the future. The court has already communicated to relevant court staff in November 2018 to remind them of the current invoice approval limits pending revision of the LCM.

Planned implementation date: February 28, 2019

We would also like to thank and recognize your staff – Rachel Hibbard, David Monnat, and Wren Greaney – for their professional and courteous demeanor when working with our court staff, both in-person and through correspondence, during the audit process.

Sincerely,

Hon. Lydia M. Villarreal
Presiding Judge

Chris Ruhl
Court Executive Officer

Judge Patricia Kelly
Presiding Judge

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SANTA BARBARA

Darrel E. Parker
Court Executive Officer

December 12, 2018

Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 94815

RE: Report No. 2018-301

Dear Ms. Howle:

The Santa Barbara Superior Court reviewed the draft audit report, Judicial Branch Procurement, Report 2018-301. We agree with the recommendations contained within the report, and are including the courts strategies and timelines to attain compliance below.

Recommendation # 1 – Santa Barbara court should ensure they document their justifications and approvals for using noncompetitive procurements.

> *Santa Barbara agrees that the justification and approvals for using noncompetitive procurements must be clearly documented in all contract files. An additional procurement specialist is now assisting with the workload to allow for more time and focus on each individual procurement. Additionally, procurement presently utilizes a contract summary at the inception of the procurement which serves as a check-list to ensure that no steps are over-looked, and all required documentation is accounted for in each procurement file.*
>
> *Estimated completion date: March 31, 2019*

Recommendation # 2 – Santa Barbara court could better document the receipt of goods and services. The Santa Barbara court should reinstate its previous requirement that staff submit packing slips or receipts before payment of invoices.

> *The court agrees that better documentation should be used for the receipt of goods and services. Santa Barbara Court will reinstate the previous requirement that staff submit packing slips or receipts prior to the payment of invoices. We agree that this will further assure that payments are appropriate. The court is currently revising the forms and procedures to include in an updated local contracting manual, and posted to the court intranet. Training on the updated policies and procedures will be provided to court staff to ensure compliance.*
>
> *Estimated completion date: March 31, 2019*

Judge Patricia Kelly
Presiding Judge

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SANTA BARBARA

Darrel E. Parker
Court Executive Officer

Recommendation # 3 – Santa Barbara court should document their alternative purchase card procedures regarding transaction limits in their local manuals.

> *Santa Barbara agrees that alternative procedures should be documented in the local contracting manual. The court began revising its local contracting manual earlier this fiscal year. If we determine that it is necessary to maintain alternate limits on any of the court credit cards, those limits will be documented in the manual.*
>
> *Estimated completion date: March 31, 2019*

Thank you for your time and communication with us throughout the process. We appreciate the recommendations made, and will utilize the opportunity to further improve our practices.

Sincerely,

Patricia Kelly, Presiding Judge
Superior Court of California, County of Santa Barbara

Cc: Darrel E. Parker, Superior Court Executive Officer

Superior Court of California
County of Santa Clara

191 North First Street
San Jose, California 95113
(408) 882-2700

Chambers of
HON. PATRICIA M. LUCAS, Presiding Judge

December 18, 2018

Elaine Howle
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Santa Clara Superior Court Response to State Audit

Dear Ms. Howle:

Key Points Response pertaining to procurement practices related to contracting

- The Court is aware of and agrees with the findings identified by the state auditors regarding lack of a proper solicitation process or sole-source justification relating to certain contracts. The Procurement Department will include in their contracting and procurement procedures reference to State contracting guidelines. The Court will also conduct scheduled price checks on existing contracts to ensure that the Court continues to receive the best pricing. If the Court chooses not to go through a solicitation process, a sole-source justification will be included in the contract in place of the solicitation.
- The Procurement Department has formulated its procedures and operated on the understanding that Leveraged Procured Agreements (LPA's) did not have to go through a solicitation process and that our Court can participate in these agreements without having to do anything further under the solicitation process. The Court now has a clear understanding of the requirements relating to such agreements.
- Going forward, the Procurement Department will scrutinize all future LPA's from government entities as well as LPA's with piggybacking clauses to determine requirements for any participating Court, to check to ensure that current pricing is fair and reasonable.
- The Procurement department will also try to ensure that either a solicitation or price check is first conducted prior to the Court extending any LPA's once the initial term has ended.

Key Points Response pertaining to separation of duties and documentation/approval of goods receipts

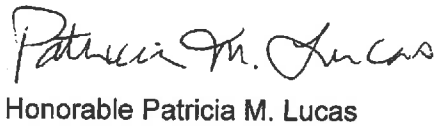
- The Court recognizes the deficiency in clear separation of duties with Court staff in the approval of invoices and posting of invoices. These incidences occurred due to a lack of staffing in Finance. Staff from other departments such as Procurement and Law Library are assisting Finance in processing these invoices until Finance can go back to adequate staffing numbers.
- Going forward, the Court will prioritize clear separation of duties between invoice approvals and the posting of invoices in SAP.

- Procurement will emphasize in their annual training the necessity for Court approvers to approve only within their designated approval amounts. Training for managers and supervisors will also emphasize that the responsibility is theirs to verify delivery of goods and services before processing invoices for payment. The Procurement Department is reviewing its invoice approval procedures and will be revising them to state clear procedures and guidelines on invoice approval limits and exceptions to the amount limits. Those procedures also will be revised to allow only managers and supervisors to approve receipts and invoices prior to processing them for payments.

Key Points Response pertaining to purchase card practices

- The Court recognizes that the use of the Court purchase cards exceeded the daily amount limit and transactional amount limit. These instances are not the normal practice of the Procurement Department. In instances where the amounts were exceeded, the vendor did not accept purchase orders and the time constraints of the project did not allow for cutting a check.
- The Court follows the State's procurement guidelines for finding the lowest/best price for goods and services. Best pricing for goods is often sourced out from vendors such as Amazon, which do not accept purchase orders. In these cases, purchase cards are the only accepted form of payment.
- The Court's Procurement Department will limit the use of the Court purchase card and will ensure the Court stays within the purchase card's daily amount limits and transaction limits.
- The Court will review the Court's purchase card limits and match it to the Judicial Council's amount limits for purchase cards. The Court will also ensure through training and reinforcement that the staff abide by the Judicial Council's purchase card limits. The Court will investigate alternative transaction limits and will revise its procedures as necessary.

Very truly yours,



Honorable Patricia M. Lucas
Presiding Judge

cc: Rebecca Fleming, Court Executive Officer
Walter Eissmann, Finance Director

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

Meeting Date: 02/08/2019

Action Item #2 – (Action Required)

External Audit Report – Department of Child Support Services

Requested Action:

- **Action Item** - Discuss the external audit reports and approve their posting on the www.courts.ca.gov website per California Rules of Court, Rule 10.63(c)(1).

Supporting Documents:

- ***Attachment C –*** Department of Child Support Services' audit of San Luis Obispo Superior Court for fiscal year 2015-16 (review of AB 1058 program)

Summary:

The attached audit report concerning the Superior Court of California, County of San Luis Obispo was mistakenly omitted from the agenda for our previous committee meeting. The audit committee has discussed these audits extensively in the past and the Department of Child Support Services (DCSS) has agreed to not seek the recovery of the questioned costs cited in the audit reports. Judicial Council staff from the Center for Families, Children and Courts are working with DCSS to develop alternative timekeeping practices aimed at reducing the administrative burden at the courts.

Staff request the approval of this audit for public posting, consistent with the other AB 1058 audits reviewed by this committee.

California Department of Child Support Services

Department of Child Support Services
Office of Audits and Compliance

Judicial Council of California Contract Review Audit Report

Superior Court of California
County of San Luis Obispo

Prepared by:
Office of Audits and Compliance

J018002

November 2018

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
OFFICE OF AUDITS AND COMPLIANCE
Judicial Council of California Contract Review
Superior Court of California, County of San Luis Obispo

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Judicial Council Contract Review
Superior Court of California, San Luis Obispo County
Department of Child Support Services
Office of Audits and Compliance
Audit Report

INTRODUCTION

California Department of Child Support Services (DCSS), Office of Audits and Compliance (OAC), conducts fiscal and compliance audits of subrecipients who receive IV-D program funds in the administration of the child support program. These audits are required as part of DCSS subrecipient monitoring responsibilities. DCSS contracts with the Judicial Council of California (JCC) for statewide Title IV-D services with the Child Support Commissioner (CSC) program and Family Law Facilitator (FLF) offices. The Court receives federal and state funds through a contract with the Judicial Council of California who oversees these programs and the expenditures claimed under this contract.

This report presents the results of the OAC's review of the Superior Court of California, County of San Luis Obispo (Court) CSC and FLF program for state fiscal year (SFY) July 1, 2015 through June 30, 2016.

BACKGROUND

The Child Support Enforcement (CSE) program is a federal/state/local partnership to collect child support from non-custodial parents. The goals of this program are to ensure that the children have the financial support of both their parents, to foster responsible behavior towards children, and to reduce welfare costs. The CSE Program was established in 1975 as Title IV-D of the Social Security Act.

Established by state legislation in 1999, the California Department of Child Support Services is designated as the single state entity responsible for ensuring that all functions necessary to establish, collect, and distribute child support are effectively and efficiently implemented. Title 45, Section 302.34 gives DCSS authority to enter into a cooperative agreement with the courts under the state plan. The JCC, chaired by the Chief Justice of California, is the chief policy making agency of the California judicial system. The JCC oversees the ongoing operations of the statewide Title IV-D CSC and FLF programs in the courts under grant funding AB 1058. In SFY 2015-16, DCSS contracted JCC for a total of $55,171,367. For the period July 1, 2015 through June 30, 2016, the JCC reimbursed the Court $448,695 in state and federal funds as follows: $357,008 for the CSC and $91,687 for the FLF program.

OBJECTIVES, SCOPE, AND METHODOLOGY

The review was conducted for the period July 1, 2015 to June 30, 2016. The area of review was limited to claimed expenditures under the contract agreement #10-0490-14 between DCSS and the JCC for this period. The objective of the review was further limited to determining if expenditures claimed by the Court under JCC contract agreement #10-30664 for the CSC program and #10-30704 for the FLF program complied with applicable laws, rules, and regulations, including OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards set forth in Title 2 CFR Subtitle A Chapter II, Part 200 (Uniform Requirements) , Trial Court Financial Policies and Procedures Manual (FIN Manual) and Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Program Accounting and Reporting Instructions.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. This audit includes examining, on a test basis, evidence supporting the amounts included on contract invoices. An audit also includes assessing the accounting principles used and significant estimates made by management.

Due to the limited scope, our audit does not constitute a financial statement audit conducted in accordance with Government Auditing Standards; therefore, we do not express an opinion on the financial statements, or on any individual account balances. Had we performed additional procedures, or conducted a complete audit of the financial statements, other matters might have come to our attention that may have been reported.

AUDIT AUTHORITY

Uniform Requirements 2 CFR 200.328 Monitoring and reporting program performance makes DCSS responsible for oversight of the operations of the Federal award supported activities. Section 200.331 requires DCSS, as the pass through entity, to monitor the activities of the subrecipient to ensure the subaward is used for authorized purposes, in compliance with federal statutes and regulations and the terms and conditions of the federal award and subaward, and that the subaward performance goals are achieved. This section also provides the authority for DCSS, as the pass-through entity, to perform on-site reviews of the subrecipient's program operations. Section 200.336 Access to records provides DCSS the right to access any pertinent documents. Title 45 CFR 302.12 gives DCSS the responsibility for securing compliance with the requirements of the State plan when delegating any of the functions of the IV-D program to any cooperative agreement.

CONCLUSION

As noted in the Findings and Recommendations section of this report, the Court's personnel expenses for a Legal Process Clerk in the CSC program and all staff in the FLF program were unsupported. As indirect costs are based on supported personnel expenses, the Court lacked support for a portion of the indirect costs claimed. Based on the sample of operating expenditures reviewed, we found the Court had sufficient support for claimed operating costs.

RESTRICTED USE

This audit report is intended solely for the information and use of the DCSS and the JCC and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record when the final is issued.

FINDINGS AND RECOMMENDATIONS

Finding 1 – Unsupported Personnel Expenses FLF – $91,687

Condition

For SFY 2015-16, the Court did not have support for the salaries, benefits or indirect costs claimed for all staff in the Family Law Facilitator program. Specifically, the Judicial Council of California AB 1058 grant manual and annual training requires courts to allocate salaries and benefits based on the actual hours court staff spend in the IV-D child support (AB 1058) program activities. Instead of documenting actual hours worked, Court staff recorded a predetermined number of hours each day on their JC-4 timesheet under IV-D program. To understand this process, we interviewed the FLF, who recalled the Court performed time studies during that period. Court staff were instructed to record hours on their JC-4 timesheet using the allocation derived from the one-week time studies. However, no documentation was provided to support the methodology used. Further, this methodology is not in accordance with JCC policy and procedures which required the allocation of salaries and benefits to be based on actual hours worked each claim month. Also, the federal regulations disallow the use of budget estimates. Lastly, Court staff signed and certified the timesheets each month stating they "certify under penalty of perjury that this time sheet accurately represents actual time worked...." Since there is no way to identify actual direct labor hours the staff spent in the FLF program or to determine the direct benefit to the FLF program, we found the Court overclaimed $91,687 for the FLF program for salaries, benefits, and indirect costs, which was the total amount reimbursed by the JCC. The Court claimed 10.59%, which is less than the JCC approved indirect cost rate of 20%.

Family Law Facilitator Program Total Unsupported Personnel Expenses SFY 2015-16	
Salaries and Benefits	$82,907
Add: Indirect Costs (10.59%)	8,780
Total Unsupported Cost	$91,687

We further observed the Court had weak internal controls in reporting and claiming salaries and benefits. Based on the JC-3 sample months reviewed, we found the Court erroneously included flex benefits twice, both in the "Gross Pay" and in "Gross Benefits", thereby overstating claimed personnel costs for the FLF program. We allowed the flex benefits as a claimable cost in "Gross Benefits" but still found the salary and benefit amounts in the ADP payroll register did not reconcile to the "Gross Pay" and "Gross Benefits" reported on the claim. The Court Accountant stated she recorded average salaries and average benefits when completing the claim in lieu of recording actual personnel costs for the claim month. This methodology resulted in an overclaim in each claim selected for review. Failing to record actual gross pay, actual gross benefits, and actual hours resulted in erroneous reporting of personnel costs. Further, estimates are not allowable under the federal requirements. We have already included

the disallowed amount in the $91,687, so no additional disallowed costs will result from weak internal control reporting.

Criteria

2 CFR Part 200.430 Compensation-personal services, (i) Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

> (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated;
> (ii) Be incorporated into the official records of the non-Federal entity;
> (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100 percent of compensated activities;
> (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
> (v) Comply with the established accounting policies and practices of the non-Federal entity; and
> (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award.

Section 200.403 Factors affecting allowability of costs states all costs must be necessary and reasonable to the Federal award, be consistent with JCC and the Court's policies and procedures and be adequately documented. Section 200.404 defines a reasonable cost as one that does not deviate from established practices and policies.

Policies and procedures provided to the Court in the Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, states, "The salaries and benefits of the court employees who work on AB 1058 program components (CSC and FLF) can be charged to the grant. Salaries include wages and compensation of court employees for the time devoted and identified specifically to the program" (page 11). Page 15 provides specific guidance to the Courts on documenting allowable and not allowable hours that can be charged directly to the AB 1058 program when completing the time reporting documentation.

The JC-4 timesheet, signed by the employee and the employee's supervisor, states, "I hereby certify under penalty of perjury that this time sheet accurately represents actual time worked…."

Recommendation

The JCC should return $91,687 to DCSS for unsupported personnel expenses and indirect costs claimed in SFY 2015-16. In the future, the Court should record actual

salaries and benefits as paid to the Court staff, implement a second level of review to ensure personnel related costs are accurately reported on the claim, and ensure benefits are not claimed twice. Further, the percentage of salary and benefit costs claimed must be allocated based on the actual labor hours directly worked in the AB 1058 grant program in accordance with the JCC established policies, procedures, and federal regulations. Indirect costs charged to the AB 1058 grant program must be supported by allowable salaries and benefits.

Finding 2 – Unsupported Personnel Expenses CSC – $14,924

Condition

For SFY 2015-16, the Court did not have support for the salary, benefits, and indirect costs claimed for the Legal Process Clerk II (LPC) in the CSC program. On May 9, 2018, we interviewed the LPC, who stated she was instructed by a previous employee to claim ten hours a week to the CSC program. We reviewed her JC-4 timesheet, which recorded 2 hours each day (10 hours per week) claimed to CSC program activities. As a result, there is no way to identify actual direct labor hours the LPC spent in the CSC program or the direct benefit to the CSC program. Specifically, we found the Court overclaimed $14,924 in salary, benefits and indirect costs related to the CSC program as follows:

Legal Process Clerk II (LPC) – CSC Program Total Unsupported Personnel Expenses SFY 2015-16	
Salary and Benefits	$12,517
Add: Indirect Costs	2,407
Total Unsupported Cost	$14,924

We further observed the Court had weak internal controls in reporting and claiming salaries and benefits. Based on the sample months reviewed, the Court incorrectly included flex benefits, both in the “Gross Pay” and “Gross Benefits” amount claimed, resulting in an underclaim to the program.

We found errors when tracing the “Gross Pay” and “Gross Benefits” amounts claimed on the JC-3 to the ADP payroll records. For example, we found seven court staff had hours for two months reported on the claim month for November 2015. However, the Court only reported one-month worth of salaries for “Gross Pay” in November 2015 for these staff. This resulted in under reporting of gross pay on the November 2015 claim. In April 2016, the Court again failed to record two-months worth of salaries for “Gross Pay”, while recording two-months’ worth of activity for one staff person. Underclaiming salaries does not result in a finding for the federal IV-D funds but is an indication of weaknesses in fiscal controls related to these errors in reporting.

Criteria

2 CFR Part 200.430 Compensation-personal services, (i) Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

> (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated;
> (ii) Be incorporated into the official records of the non-Federal entity;
> (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100 percent of compensated activities;
> (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
> (v) Comply with the established accounting policies and practices of the non-Federal entity; and
> (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award.

Section 200.403 Factors affecting allowability of costs states all costs must be necessary and reasonable to the Federal award, be consistent with JCC and the Court's policies and procedures and be adequately documented. Section 200.404 defines a reasonable cost as one that does not deviate from established practices and policies.

Policies and procedures provided to the Court in the Title IV-D (AB 1058) Child Support Commissioner and Family Law Facilitator Accounting and Reporting Instructions issued by the Judicial Council of California, dated June 2015, states, "The salaries and benefits of the court employees who work on AB 1058 program components (CSC and FLF) can be charged to the grant. Salaries include wages and compensation of court employees for the time devoted and identified specifically to the program" (page 11). Page 15 provides specific guidance to the Courts on documenting allowable and not allowable hours that can be charged directly to the AB 1058 program when completing the time reporting documentation.

The JC-4 timesheet, signed by the employee and the employee's supervisor, states, "I hereby certify under penalty of perjury that this time sheet accurately represents actual time worked…."

Recommendation

The JCC should return $14,924 to DCSS for unsupported personnel expenses and indirect costs claimed for the LPC in SFY 2015-16. In the future, the Court should ensure the percentage of salary and benefit costs claimed are allocated based on actual labor hours directly worked in the AB 1058 grant program. These costs must be claimed in accordance with the JCC established policies, procedures, and federal

regulations. The Court should implement stronger internal controls such as a second level of review and approval of the JC-3 payroll summary sheets, prior to submission to the JCC, to help ensure gross pay, gross benefits, and actual hours worked are accurately claimed.

Superior Court of California
County of San Luis Obispo

Michael Powell
Court Executive Officer
(805) 781 1528
(805) 781-1159 (FAX)

Courthouse Annex
1035 Palm Street, Room 385
San Luis Obispo, CA 93408
www.slocourts.net

October 15, 2018

Ms. Karen Dailey, Audit Manager
Office of Audits and Compliance
Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 95741-9064

Transmitted via e-mail to: DCSSOAC@dcss.ca.gov

Re: Response to DCSS' Contract Review Audit Report (Draft), dated September 14, 2018

Ms. Dailey,

The Superior Court of California, County of San Luis Obispo (Court) appreciates the opportunity to respond to the draft audit report prepared by the California department of Child Support Services (DCSS). The review was limited to examining AB1058 child support related costs claimed in state fiscal year 2015-16 for the Child Support Commissioner and Family Law Facilitator programs. In the fiscal year covered by the audit, the Judicial Council of California (JCC) reimbursed the Court $448,695 in state and federal funds as follows: $357,008 for the Child Support Commissioner (CSC) program and $91,687 for the Family Law Facilitator (FLF) program.

The court agrees that some of employees used estimates or calculated averages of their time when completing their timesheets and that this practice is inconsistent with federal regulations that apply to the AB1058 program. The court further agrees that internal controls on reporting and claiming salaries and benefits require improvement.

Significant action has already taken place to remedy the concerns raised in the audit report:

1. Legal process staff working on grant related activity have had an application installed on their computers, a "Q-file" that functions as a stop watch. When grant activity is performed, staff clicks on the program. Time is stopped when the task is completed. The application tracks different categories of AB1058 activity: E-file work, counter, phones, calendar and other. At the end of each day, the supervisor sends out a report to each employee, asking them to confirm the amount of time tracked in the Q-file. The task-specific time is then entered into the employee's time sheet. The supervisor retains the electronic log of all tracked activity. In short, AB1058 grant activity is currently being tracked in real time.
2. Personnel related costs are now entered as the actual costs of the employee performing grant related activity and are not based on a calculated average.
3. JC-3 payroll summary sheets now undergo a secondary review prior to submission to the JCC.

4. Ongoing training in time tracking for all employees engaged in grant related activity.

Although the court has taken the above actions, it respectfully disagrees with the audit recommendation that the Judicial Council return $109,774 for unsupported personnel expenses. Claims made to the AB1058 program were based in the employees' calculated estimates of actual time spent on grant activities, and our accounting of staff salaries were consistent with our understanding of allowable protocols. While the court understands and accepts that it has not documented personnel costs in the manner currently prescribed by DCSS, the court is confident that the claimed amounts were a reasonable assessment of the cost of the grant related activity.

This court remains very committed to continued support of all AB1058 program goals. The Court sincerely thanks the DCSS auditors for their professionalism and for their efforts to improve the AB1058 program. This Court is committed to improving the administration of the AB1058 grants, and we appreciate the opportunity to improve as recommended. These grants are critical to the court's ability to administer the court activities designed to ensure the continued financial support of California's children.

Sincerely,

Michael Powell
Court Executive Officer

Evaluation of Response

On September 14, 2018, OAC issued a draft report for the Court's review and response. We received the Court's written response to the draft report on October 19, 2018. The Court concurs with our findings; however, disagrees with the recommendation to return $109,774 in disallowed costs. Due to an adjustment of the reimbursement by the JCC, we were able to reduce the total disallowed amount of $109,774 to $106,611 and have updated the report accordingly.

The Court's response indicates it has taken corrective action. If implemented as described, the corrective action should be sufficient to address the findings identified in this report. We will follow up in six months for the progress of the corrective action plan.

Audit Staff

Mackenzie Kerling
Staff Services Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Francesca Chavez, Auditor in Charge
Associate Management Auditor
Office of Audits and Compliance
Department of Child Support Services

Rakhee Devi
Audit Supervisor
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Department of Child Support Services

Scott Hunter
Audit Manager
Office of Audits and Compliance
Department of Child Support Services

Karen Dailey
Audit Chief
Office of Audits and Compliance
Department of Child Support Services