JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

http://www.courts.ca.gov/committee.htm
committee@jud.ca.gov

AUDITS AND FINANCIAL ACCOUNTABILITY COMMITTEE

OPEN MEETING WITH CLOSED SESSION AGENDA

Open to the Public Unless Indicated as Closed (Cal. Rules of Court, rule 10.75(c)(1))

THIS MEETING IS BEING CONDUCTED BY ELECTRONIC MEANS

OPEN PORTION OF THIS MEETING IS BEING RECORDED

Date:	June 19, 2018
Time:	12:15 – 1:30 PM
Public Call-In Number:	1-877-820-7831; Public Listening Code 4045700

Meeting materials for open portions of the meeting will be posted on the advisory body web page on the California Courts website at least three business days before the meeting.

Agenda items are numbered for identification purposes only and will not necessarily be considered in the indicated order.

I. OPEN MEETING (CAL. RULES OF COURT, RULE 10.75(C)(1))

Call to Order and Roll Call

Opening Comments by the Chair and Vice-Chair

Presenter(s)/Facilitator(s): Hon. Judge Rosenberg—Chair; Hon. Justice Siggins—Vice Chair

Approval of Minutes

Approve minutes of the May 23, 2018, audit committee meeting.

Approve minutes of the June 1, 2018, (action taken by e-mail)

II. PUBLIC COMMENT (CAL. RULES OF COURT, RULE 10.75(K)(2))

Written Comment

In accordance with California Rules of Court, Rule 10.75(k)(1), written comments pertaining to any agenda item of a regularly noticed open meeting can be submitted up to one complete business day before the meeting. For this specific meeting, comments should be e-mailed to insert e-mail or mailed or delivered to Judicial Council of California, Audit Services, 455 Golden Gate Avenue, 5th Floor, San Francisco, California 94102 attention: Viktoriya Volzhenina. Only written comments received by 12:15 PM on June 18, 2018 will be provided to advisory body members prior to the start of the meeting.

III. Information Only Items (No Action Required)

Info 1

Report from Audit Services

Overview of Audit Services' work in progress and staffing levels as well as a summary of external audits being performed by other governmental agencies.

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

Info 2

General Discussion by Members of the Committee

Open discussion by committee members regarding any topic within the scope and purview of the Advisory Committee for Audits and Financial Accountability for the Judicial Branch.

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

IV. Discussion and Possible Action Items (Item 1)

Item 1

Review, Discussion & Potential Approval of Annual Audit Plan (Action Required)

Discuss audit committee members' desire for additional changes to the annual audit plan, including courts selected for audit and areas to be reviewed. Committee's eventual approval of an annual audit plan is required per California Rules of Court, Rule, 10.63(c)(1)

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services

V. Adjournment

Adjourn to Closed Session

VI. Closed Session (Cal. Rules of Court, Rule 10.75(d))

Item 2

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of the Superior Court of California, County of Solano for public posting per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services; Robert Cabral, Manager- Judicial Council's Audit Services

Item 3

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of the Superior Court of California, County of Colusa for public posting per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services; Robert Cabral, Manager- Judicial Council's Audit Services

Item 4

Draft Audit Report – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports

Review and approve Audit Services' draft audit report of the Superior Court of California, County of Calaveras for public posting per Rule of Court 10.63(c)(1).

Presenter(s)/Facilitator(s): Grant Parks, Principal Manager – Judicial Council's Audit Services; Robert Cabral, Manager- Judicial Council's Audit Services

VII. ADJOURNMENT

Adjourn the meeting

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ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING WITH CLOSED SESSION

May 23, 2018
12:15 pm
Conference call

Advisory Body Members Present:	Hon. David Rosenberg, Hon. Peter Siggins, Hon. Susan Matcham, Mr. Kevin Harrigan, Mr. Kevin Lane, Ms. Sherri Carter, Ms. Tania Ugrin-Capobianco and Mr. Phil Jelicich
Advisory Body Members Absent:	Hon. Mary Ann O'Malley
Others Present:	Ms. Andrea Rohmann (3rd DCA), Ms. Colette Bruggman (3rd DCA), Mr. Grant Parks, Mr. Robert Cabral, Mr. Oliver Cheng (Judicial Council Legal Services)

OPEN MEETING

Call to Order and Roll Call

The chair called the meeting to order at 12:16 pm, and took roll call.

Approval of Minutes

Judge Matcham moved to approve the minutes of the April 17th meeting, Justice Siggins seconded the motion. There was no further discussion of the minutes. Motion to approve passed by unanimous voice vote of the committee members present.

DISCUSSION AND ACTION ITEMS (INFO ITEMS 1&2; ACTION ITEM 1)

Info Item 1

Report from Audit Services.

Mr. Parks has shared that he anticipates having Solano, Colusa and Calaveras Superior Court audits completed by the next meeting in June. The audit plan for the next year has been prepared and shared with the committee members for their review and preliminary comments.

Materials provided for this meeting also included information on spending under Court Grants Innovations Program. Mr. Parks has shared that we have two years left in the program, and roughly 12% of 25 million that was awarded have already been spent to this date. Audit of that program

has been included as part of annual audit plan for Audit Services Office. However, based on the amount spent to date, Audit Services Office is still delaying identifying which courts to audit under that program. Mr. Parks has also added that executives from the Judicial Council continue to have discussions with DCSS about AB1058 audits and resolution of the audit findings. As soon as the information about the resolution becomes available, Mr. Parks will share this information with the committee members.

Justice Siggins asked if Audit Services office still has vacant position for Auditor. Mr. Parks has confirmed that his office has only one vacant auditor position, and that he is actively advertising for this position. Mr. Parks is hoping he can have this position filled in the next month or so.

Info Item 2.

General Discussion by Members of the Committee. No items were discussed.

Action Item 1.

External Audit Report – State Controller's Office (Action Required)

Judge Rosenberg let the committee members know that he will recuse himself from participating in the discussion and subsequent committee action regarding the audit of Yolo Superior Court. Judge Rosenberg sits on the bench at Yolo, and thus turned this portion of the meeting over to the Vice-Chairman Justice Siggins.

Mr. Parks provided some highlights about this audit. Yolo Superior Court was the first of six pilot audits, statutorily required by the State Controller's Office government Code 77206(h). Yolo was the first audit selected and completed. Once these pilot audits are completed, the SCO will inform how much it will cost to perform these audits on recurring bases. The overall audit conclusion is that Yolo superior court complied with the governing codes, rules and regulations, related to revenue, expenditures and fund balances. The SCO's overall impression was that Yolo was very well managed. The SCO auditors also greatly appreciated coordination and cooperation from Mr. Landry and his staff during the audit. The auditors did find four minor findings. Two findings were in the area of cash handling, one in procurement area and one in the area of expenditure processing. The court agreed with the State Controller's four findings. Committee staff recommended that the committee approve the audit report for public posting.

Action: Ms. Sherri Carter moved that the Yolo audit be approved for public posting (Ms. Ugrin-Capobianco seconded). With no further discussion, the motion unanimously passed by a voice vote of the committee members present (with Judge Rosenberg abstaining).

ADJOURNMENT

There being no further open meeting business, the meeting was adjourned to closed session at 12:32 pm.

CLOSED SESSION

Item 1

Draft Audit Report "Audit of the California Court of Appeal, 3rd Appellate District" – Rule of Court 10.75(d) (6) (Action Required)

Non-final audit reports or proposed responses to such reports Action.

Action: Justice Siggins moved that the audit of the 3rd DCA be approved and posted publicly (seconded by Ms. Ugrin-Capobianco). With no further discussion, the motion passed by unanimous voice vote of the committee members present.

Item 2

Privileged or Confidential Information – Rule of Court 10.75(d) (7) (Information Only)

Obtain Legal Advice on Proposed Updates to the Judicial Branch Contracting Manual

Mr. Oliver Cheng of the Judicial Council's Office of Legal Services briefed committee members on the proposed changes to the Judicial Branch Contracting Manual (JBCM) and provided legal advice on the potential implications of accepting or rejecting various proposals.

Action: Committee members considered legal advice and developed a final draft of the JBCM changes. The committee further directed staff to publicly post the final draft and to solicit public comment. The committee expressed its intent to possibly take final action via e-mail—following the public comment period—to formally approve the proposed changes.

Adjourned closed session at 1:15pm.

Approved by the advisory body on June 19th.

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ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING WITH CLOSED SESSION

June 1, 2018
12:15 pm
Action Taken By E-mail

Advisory Body Members Present:	Hon. David Rosenberg, Hon. Susan Matcham, Mr. Kevin Harrigan, Mr. Kevin Lane, Ms. Sherri Carter, Ms. Tania Ugrin-Capobianco
Advisory Body Members Absent:	Hon. Peter Siggins; Hon. Mary Ann O'Malley; Mr. Phil Jelicich (non-voting member)
Others Present:	Mr. Grant Parks (Committee Staff)

DISCUSSION AND ACTION ITEMS (ACTION ITEM 1)

On May 24, 2018, the committee had provided public notice of its intent to take action via e-mail and also posted the proposed changes to the Judicial Branch Contracting Manual (JBCM) for public comment. The public comment period ended on May 29, 2018 at 5:00 pm, and no public comments were received.

Based on the committee chair's determination that prompt action is needed—pursuant to California Rules of Court, Rule 10.75(o)(1)(B)—the committee took action via e-mail on the following two action items on June 1st, 2018.

Item 1

Approval of Proposed Committee Report to Judicial Council Regarding Changes to the Judicial Branch Contracting Manual. (Motion Passes)

Ayes:

- Judge David Rosenberg
- Judge Susan Matcham
- Mr. Kevin Lane
- Ms. Tania Ugrin-Capobianco
- Ms. Sherri Carter
- Mr. Kevin Harrigan

No:

Not Voting:
- Justice Siggins
- Judge Mary Ann O'Malley

Item 2

Approval of Proposed Changes to the Judicial Branch Contracting Manual. (Motion Passes)

Ayes:
- Judge David Rosenberg
- Judge Susan Matcham
- Mr. Kevin Lane
- Ms. Tania Ugrin-Capobianco
- Ms. Sherri Carter
- Mr. Kevin Harrigan

No:

Not Voting:
- Justice Siggins
- Judge Mary Ann O'Malley

ADJOURNMENT

There being no further committee business upon both action items passing by a majority of committee members, the vote was closed.

Approved by the advisory body on June 19th.

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 06/19/2018

Informational Item #1 – (No Action Required)

Report from Audit Services

Status Update – Judicial Council's Audit Services

Audit Services has substantially completed audit work at Siskiyou and this month held entrance conferences with both Ventura and Sacramento superior courts. Audit Services expects to share its audit of Siskiyou in late August, with the Ventura and Sacramento audits expected in the fall.

Audit Services is now recruiting for its final vacancy, which is an auditor position that will assist with performing audits of the superior and appellate courts. Once filled, Audit Services will have a total of 14 auditors, 8 of whom focus on performing audits of the superior and appellate courts per the annual audit plan. A current organizational chart (**Attachment A**) for Audit Services is attached for your reference. This past year, Audit Services has hired 6 people (listed below) who each bring valuable governmental auditing experience to the Judicial Council:

Joe Meyer: Worked at the California State Auditor's Office for the last seven years. During that time, he supervised portions of the State's financial statement audit and performed various performance audits at the Legislature's request. Joe is a CPA and a certified internal auditor (CIA). Joe is now one of two audit team leaders managing audits of the superior and appellate courts.

Jerry Lewis: Worked at the California State Auditor's Office for 23 years, managing numerous federal compliance audits as part of the annual statewide single audit. While working at the State Auditor's Office, Jerry also periodically managed the biennial audit of the judicial branch's contracting practices. Today, Jerry is an audit team leader managing audits of the superior courts and appellate courts.

Veronica Perez: Worked at the California State Auditor's Office for four years, conducting performance audits at the request of the Legislature. Veronica is a certified fraud examiner (CFE) and holds a Master's Degree in Public Policy.

Diana Farias: Worked for various state agencies as: a tax auditor; accountant; and budget analyst. Prior to joining state government, Diana worked for KPMG's Risk Consulting Advisory Practice. Diana is currently pursuing her master's degree in in law from the McGeorge School of Law.

Maria Peduru: Prior to joining the Judicial Council, Maria worked as an auditor with the California State Auditor's Office. Maria is a CPA and CFE.

Kurtis Nakamura: Worked four years at the California State Auditor's Office performing audits of state programs and agencies at the request of the Legislature. Kurtis holds a master's degree in Public Policy.

Status Update – External Governmental Audit Organizations

State Controller's Office

The State Controller's Office (SCO) continues to work towards completing its pilot audit program under Government Code, Section 77206(h) for the remaining 5 superior courts (listed below):

- Sacramento (fieldwork complete, report in development)
- Amador (fieldwork nearly complete, exit conference scheduled)
- San Mateo (fieldwork started, entrance conference held in May)
- Sonoma (fieldwork stated, entrance conference held in May)
- Tehama (entrance conference scheduled for 6/11/18)

Department of Child Support Services

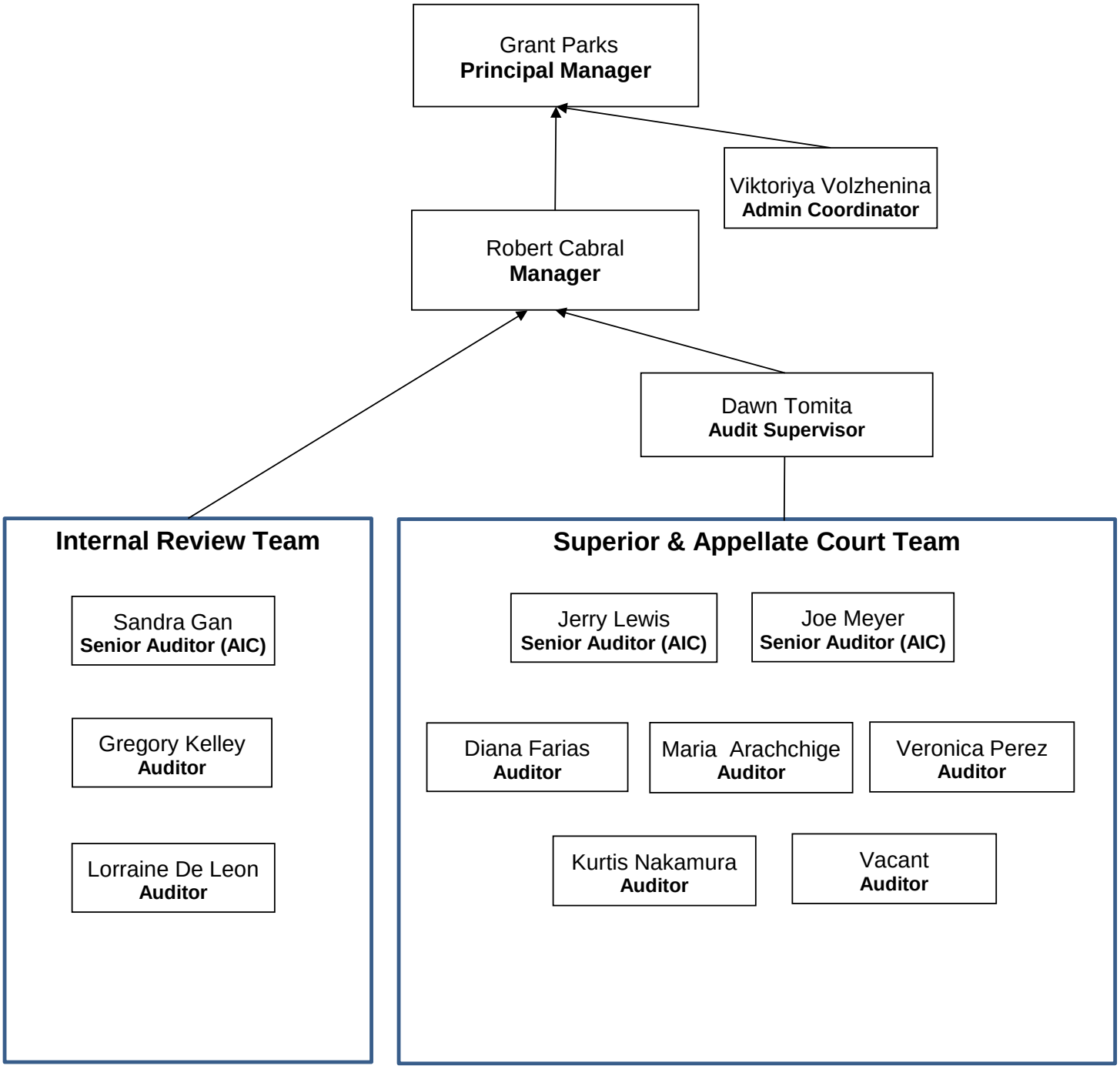
The Department of Child Support Services (DCSS) has not issued any final audit reports on the AB 1058 program since the audit committee's meeting on April 2018. Discussions between the Judicial Council's executive management team and DCSS regarding audit resolution are ongoing.

Supporting Documents:

- Attachment A – Audit Services' Organizational Chart

JUDICIAL COUNCIL OF CALIFORNIA
EXECUTIVE OFFICE

AUDIT SERVICES
ORGANIZATIONAL STRUCTURE



6/5/2018

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 06/19/2018

Action Item #1 – (Action Requested)

Discussion and Approval of the Annual Audit Plan

Action requested:

Approve Annual Audit Plan for FY 2018-19 per Rule of Court 10.63(c)(1)

Summary:

Audit Services has prepared the attached draft audit plan. The audit plan describes Audit Services' perspectives of the high-risk issues affecting the courts and how audit coverage will be achieved based on Audit Services' available staffing and related audit hours, along with the anticipated work performed by external auditors (i.e. the State Auditor and State Controller) per statutory audit requirements. Overall, Audit Services intends to continue the scope areas identified in the prior year's (2017-18) audit plan, subject to comments and revisions by audit committee members.

Key exhibits from the proposed Audit Plan (**Attachment A**) include:

- Table 2 – Available audit resources and anticipated audit schedule
- Table 3 – Schedule of Previous & Planned Audits

Recap of audit findings from FY 17-18

Audit Services has summarized for audit committee members the common and recurring audit findings encountered during the past year. **Attachment B** includes a summary table and short descriptions of the common issues. Overall, Audit Services wrote 75 audit findings this year with the majority of the findings in the *cash handling* and *payment processing* areas. The six superior courts we audited agreed with our findings 85% of the time; and agreed/partially agreed 96% of the time. A new area of focus this year has been on JBSIS reporting and the lack of data quality standards. The audit committee wrote a letter to CEAC in April 2018 to ask that they begin creating data quality standards. The chair of CEAC's JBSIS working group has advised that work is already underway in this area and hopes to provide the audit committee with an update once there

is something definitive to share. Further, the JBSIS working group plans to have discussions on whether the superior courts should be reporting case-specific identifiers (e.g. case numbers) to help validate currently reported case counts. For these reasons, Attachment B does not go into further detail on JBSIS since corrective action is underway.

Overall, the most common audit findings—as described in Attachment B—frequently involved courts not following the suggested internal control practices cited in the FIN Manual, particularly when processing payments received by mail. Payments received by mail are an inherently high-risk transaction given that the paying member of the public is not present for the transaction and the possibility that a receipt may not be generated. Other common problems we observed included court employees not providing sufficient information on travel expense claims to demonstrate the travel charges are allowable and consistent with judicial branch travel policies. We also noted that some courts lack documented agreements for in-court service providers (such as court interpreters and reporters). Absent written agreements that document the agreed-upon payment rates before the commencement of work, the courts are at a disadvantage should vendors dispute the payments received. Further, the lack of documented agreements limits court employees from scrutinizing vendors' claims to ensure the amounts billed are consistent with what the court had originally agreed to.

Supporting Documents:

- Attachment A: Draft Annual Audit Plan for Fiscal Year 2018-19
- Attachment B: Recap of Audit Findings from Fiscal Year 2017-18

JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2018 - 2019

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JUDICIAL COUNCIL
OF CALIFORNIA
LEADERSHIP SERVICES DIVISION
AUDIT SERVICES

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Annual Audit Plan

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BACKGROUND

The Audit Committee

The Judicial Council amended Rule of Court, rule 10.63 in July 2017, establishing the "Advisory Committee on Audits and Financial Accountability for the judicial branch" (audit committee). The Judicial Council has tasked the audit committee with advising and assisting the Judicial Council in performing its responsibilities to ensure that the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently. The committee's audit-specific responsibilities include[1]:

- Reviewing and approving an annual audit plan for the judicial branch.
- Reviewing all audit reports of the judicial branch and recommending action to the Judicial Council in response to any substantial issues identified.
- Approving the public posting of all audit reports of the judicial branch.
- Advising and assisting the Judicial Council in performing its responsibilities under:
    - Government Code, Section 77009(h) – the Judicial Council's audits of the superior courts.

[1] The Judicial Council tasked the Advisory Committee on Audits and Financial Accountability with responsibilities beyond reviewing and responding to audit reports, which is the principal focus of this annual audit plan. Other committee responsibilities generally include monitoring adherence to the California Judicial branch Contract Law, evaluating proposed changes to the *Judicial branch Contracting Manual*, and making recommendations on proposed changes to the annual compensation plan for Judicial Council staff.

- Government Code, Section 77206 – Responding to external audits of the Judicial Council and the superior courts by the State Controller, State Auditor, or Department of Finance.

The audit committee serves as a central clearinghouse for hearing all audit-related issues pertaining to the Judicial Council, appellate courts, and the superior courts, regardless of whether the audit was performed by the Judicial Council's own staff (Audit Services) or by external audit organizations (such as the State Controller's Office, State Auditor's Office, or the Department of Finance). The committee communicates significant audit findings and issues to the entire Judicial Council, and can also suggest policy changes or other proposed corrective actions in response to any significant audit finding.

Purpose of the Annual Audit Plan

The purpose of the annual audit plan is twofold: The annual plan explains (a) which focus areas will be audited during the year, and (b) how Audit Services will coordinate with external audit organizations (described below) to execute the annual audit plan in response to statutorily mandated audits and to other areas of focus. The annual audit plan itself also helps to establish expectations for audit committee members regarding which audits and topics will come before their committee for further discussion during the year.

Audit Services' Role

Audit Services' primary role is to establish an annual audit plan, which explains how significant risks and statutory audit requirements imposed on the judicial branch will be addressed in the coming year, and to perform audits of the appellate and superior courts to ensure the Judicial Council's rules and policies are followed in actual practice. Audits of the superior courts often entail a review of its fiscal affairs such as, but not limited to, whether a superior court has: implemented certain mandatory internal controls over cash handling; adhered to statutory limitations on fund balance; and has procured goods and services that are consistent with "court operations" as defined by Rule of Court, rule 10.810. Audits of appellate courts focus more heavily on procurement activity given the more limited requirements imposed on their activities by the Judicial Council. Finally, Audit Services performs internal reviews of the Judicial Council as directed by the Administrative Director and coordinates with independent, external agencies that audit the Judicial Council's operations.

The Role of External Audit Agencies

External audit agencies, such as the State Auditor's Office (State Auditor) and the State Controller's Office (SCO), also perform recurring audits of the judicial branch as directed by

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statute. The statutory authorities for each external audit agency (as it currently pertains to the judicial branch) are summarized below:

State Auditor – performs the following:

- Financial statement audits of the State's *Comprehensive Annual Financial Report* (CAFR), as prepared by the SCO, in accordance with Generally Accepted Accounting Principles. [Govt. Code, Section 8546.3]
- Discretionary audits as directed by the Joint Legislative Audit Committee [Govt. Code, Section 8546.1]
- Audits of the Judicial Council and other judicial branch entities' compliance with the Judicial branch Contracting Law. [Pub. Contract Code, Section 19210]

State Controller's Office – performs the following:

- Audits of Judicial Council and superior courts' revenues, expenditures and fund balance. [Govt. Code, Section 77206]
- Audits of criminal fine and fee revenue collection and distributions by the superior courts. [Govt. Code 68101]

Although the State Auditor and the SCO both perform financial-related audits, the purpose of each audit is different. The State Auditor's annual financial statement audit of the statewide CAFR includes the financial information submitted by the judicial branch to the SCO. Separate from this statewide financial statement audit, the Government Code requires the SCO to evaluate the Judicial Council and superior courts' compliance with state laws, rules and regulations pertaining to significant revenues, expenditures, and fund balances under their control. These SCO audits focus on evaluating compliance with the State's unique rules, such as the State's legal/budgetary basis of accounting and civil filing fee collections and distributions. The Judicial Council is required to use the SCO to perform the audits mandated under Government Code, Section 77206, unless either the State Auditor or Department of Finance can perform the same scope of work as the SCO but at a lower cost.

ANNUAL AUDIT PLAN

Risk Assessment Background

The concepts behind *risk* and *internal controls* are interrelated. Internal controls are those policies or procedures mandated by the Judicial Council, or developed by a court, designed to achieve a specific control objective. An example of an internal control, such as the segregation of duties when handling cash, focuses on reducing the risk of the theft. Internal Controls respond to risks and Audit Services broadly classifies risks into the following three categories:

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- Operational Risk – The risk that the court's strategic business objectives or goals will not be accomplished in an effective or efficient manner.

- Reporting Risk – The risk that financial or operational reporting is not relevant or reliable when used for internal decision-making or for external reporting. (Examples of external reporting include the Judicial Council and the Courts' financial reporting to the SCO or a court's reporting of case filing data to the Judicial Council through JBSIS.)

- Compliance Risk – The risk of not complying with statutory requirements or the policies promulgated by the Judicial Council (such as the requirements found in the *Trial Court Financial Policies and Procedures Manual* (FIN manual), Judicial branch Contracting Manual, or other Judicial Council policies).

Any single risk area may overlap with more than one of the three risk categories defined above. For example, certain reports—such as JBSIS case filing reports—have a reporting risk component in that the data reported must be accurate and complete to support trial court funding allocations, along with a compliance component since the Judicial Council has established definitions for what constitutes a new case filing and how a filing should be categorized by case type. Another example would be the Court's annual reports to the Judicial Council on their fund balance, which the Judicial Council uses to evaluate a court's compliance with state law limiting fund balance to one percent of its operating budget. Audit Services considers risk areas that cross over into more than one risk category to be generally indicative of higher risk.

However, risk areas that can be confined to only one risk category—such as compliance risk—may also be considered an area of higher risk depending on the likelihood of error or its potential negative effects (financial, reputational, etc.). For example, the FIN Manual has established policies concerning the proper handling of cash and other forms of payment in the courts. Many of these policies were issued with the intent of establishing a minimum level of internal controls at each court in order to prevent or detect fraud by court employees, and to provide the public with the highest level of assurance that their payments would be safeguarded and properly applied to their cases.

When identifying areas to include within the scope of its superior court audits, Audit Services focused on identifying reporting and compliance risks, but not operational risks. This decision reflects Audit Services' recognition of each superior court's broad authority to operate under its own locally-developed rules and strategic goals. Government Code, Section 77001 recognizes each superior court's local authority by authorizing the Judicial Council to adopt rules that establish a decentralized system of trial court management. The Judicial Council's Rules of Court, rule 10.601, also emphasizes the decentralized management of superior court resources

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and affirms each superior court's authority to manage their day-to-day operations with sufficient flexibility. Audit Services will consider auditing operational risk areas where courts have local discretion only when asked to do so by the superior court's presiding judge or court executive officer and provided that sufficient audit staff resources are available.

The Legislature has provided the Judicial Council with the responsibility for developing broad rules within which the superior courts exercise their discretion. For example, Government Code, Section 77206 authorizes the Judicial Council to regulate the budget and fiscal management of the trial courts, which has resulted in it promulgating the FIN Manual pursuant to Rules of Court, rule 10.804. The FIN Manual establishes a system of fundamental internal controls to enable trial courts to monitor their use of public funds, report financial information, and demonstrate accountability. The FIN Manual contains both mandatory requirements that all trial courts must follow, as well as suggestive guidance that recognizes the need for flexibility. Similarly, the Legislature enacted section 19206 of the Public Contract Code, requiring the Judicial Council to adopt and publish a *Judicial branch Contracting Manual* (JBCM) that all judicial branch entities must follow. When identifying high risk areas that will be included in the scope of its audits, Audit Services considers the significant reporting and compliance risks based on the policies and directives issued by the Judicial Council, such as through the FIN manual, JBCM, Rules of Court, and budgetary memos.

Risk Areas, Assessed Level of Risk, and Auditing Entities

Audit Services used its professional judgement and industry standards when identifying areas of risk (and associated risk levels) when determining the scope of its audits of the superior and appellate courts. Specifically, Audit Services considered the significance of each risk area in terms of the likely needs and interests of an objective third party with knowledge of the relevant information, as well as a risk area's relevance or potential impact on judicial branch operations or public reputation. The risk areas assessed are shown in the table below. The table also reflects statutorily-mandated audits performed by the State Auditor and State Controller's Office, which further contribute to accountability and public transparency for the judicial branch. When assigning risk levels, Audit Services generally considered the complexity of the requirements in a given risk area and its likely level of importance or significance to court professionals, the public, or the Legislature. Areas designated as high risk were generally those with complex requirements (such as criminal fine and fee distributions). In other cases, high risk areas were those where the internal control requirements may not be complex but the incentives to circumvent those controls or to rationalize not having them in the first place is high (i.e. cash handling). Areas of medium risk generally included those risk areas where the complexity of the requirements were low to moderate, but the reputational risk resulting from any significant audit findings would be moderate to high.

Table 1 – Risk Areas Considered (by area, level of risk, and responsible audit organization)

		Risk Category and Level		Audit Organization		
Risk Area	**Description of Risk**	**Reporting Risk**	**Compliance Risk**	**JCC Audit Services**	**State Controller's Office**	**State Auditor's Office**
Superior Courts						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	**Medium**	**Medium**			**X**
Financial Compliance	Recording of revenues, expenditures and fund balance not in accordance with state rules.	**N/A**	**Medium**		**X**	
Cash Handling	Court does not follow JCC internal control policies on handling cash and other forms of payment.	**N/A**	**High**	**X**		
Procurement Activity	Court does not adhere to the Judicial Branch Contract Law and related JCC policies to maximize best value through competitive procurements.	**Medium**	**Medium**	**X**		**X**
Payments & Authorization	Payments are for unallowable activities and/or lack authorization from the designated level of court management.	**N/A**	**Medium**	**X**		
Criminal Fine & Fee Revenue	Criminal fines and fees not properly calculated and reported to the county.	**High**	**High**	**X**	**X**	
Budgetary Accountability	Court submits inaccurate case filing data through JBSIS, impacting trial court budget allocations. Court holds on to more fund balance than allowed under statute and JCC policy.	**High**	**High**	**X**		
JCC Grant Requirements	Court does not follow JCC policy or grant rules regarding how funds are to be spent, accounted for, and/or reported on with respect to performance or outcomes.	**Medium**	**Medium**	**X**		
Appellate Courts						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	**Medium**	**Medium**			**X**
Procurement Activity	Court does not adhere to the Judicial Branch Contract Law and related JCC policies to maximize best value through competitive procurements.	**Medium**	**Medium**	**X**		**X**
JCC Grant Requirements	Court does not follow JCC policy or grant rules regarding how funds are to be spent, accounted for, and/or reported on with respect to performance or outcomes.	**Low**	**Low**	**X**		
Judicial Council						
Financial Reporting	Financial statements are not prepared in accordance with GAAP.	**Medium**	**Medium**			**X**
Financial Compliance	Recording of revenues, expenditures and fund balance not in accordance with state rules.	**N/A**	**Medium**		**X**	
Procurement Activity	Court does not adhere to the Judicial Branch Contract Law and related JCC policies to maximize best value through competitive procurements.	**Medium**	**Medium**			**X**
Non-Audit, Internal Reviews	The Judicial Council's offices and programs are reviewed for financial and/or operational performance as directed by executive management.	**Medium**	**Medium**	**X**		

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As noted in Table 1, Audit Services' work has the potential to overlap with the work performed by the State Auditor during its court procurement audits, or with the SCO as it performs its criminal fine and fee revenue distribution audits. When planning our work at any court, Audit Services will consider recent audit activity in these areas and may reduce its audit work—such as to only verify that the court successfully took corrective action—or eliminate the planned procedures altogether if the SCO or State Auditor had no significant findings.

Audit Scheduling and Available Staffing Resources

Audit Services has two units—an Internal Review Team and a Court Audit Team—that each focus on distinct areas of work. The Court Audit Team currently consists of two senior auditors and five audit staff, who are split into two different sub-teams. The Court Audit Team's focus at each court is based on the risk areas noted in Table 1 above. The Internal Review Team has more limited staffing, with one senior auditor and two staff auditors based in San Francisco. This team focuses on performing periodic internal reviews as directed by and for the sole benefit of the Judicial Council's executive management team. The Internal Review Team also investigates whistleblower complaints and performs non-recurring or targeted reviews of judicial branch programs that may affect multiple courts (such as the planned audits under the *Courts Innovations Grant Program*). Audit Services estimates that it has roughly 8,800 available hours for audit activities of the appellate and superior courts for fiscal year 2018-19. This translates to roughly eight court audits during the year, not including the roughly 2,500 hours the Internal Review Team has reserved for auditing court compliance under the *Courts Innovations Grant Program*.

The schedule also provides insight on what audit reports are expected to come before the audit committee. For example, the State Controller's Office is performing a pilot audit and certain trial courts pursuant to Government Code, Section 77206(h) and expects to issue most of these reports during the beginning of the fiscal year. Similarly, the State Auditor's Office is expected to audit five trial courts to evaluate their compliance with the Judicial Branch Contracting Law, with that report expected around November 2018. Audit Services also anticipates that the California Department of Child Support Services will also continue to perform audits of select courts under the AB 1058 grant program.

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Table 2 – Available Resources and Anticipated Audit Schedule (Fiscal Year 2018-19)

	2018-19												
	July	August	September	October	November	December	January	February	March	April	May	June	Total
Working Days	**22**	**23**	**20**	**23**	**22**	**21**	**23**	**20**	**21**	**22**	**23**	**20**	**260**
Maximum Hours	176	184	160	184	176	168	184	160	168	176	184	160	**2,080**
Judicial Branch Holidays	(8)		(8)	(8)	(24)	(8)	(16)	(16)	(8)		(8)		**(104)**
Est. Annual Leave / Sick Leave / P.H.	(40)		(16)		(16)	(80)						(40)	**(192)**
Available Hours Per Auditor	***128***	***184***	***136***	***176***	***136***	***80***	***168***	***144***	***160***	***176***	***176***	***120***	***1,784***
Administrative Time	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	**(24)**
Training	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	**(48)**
Travel (Two Round Trips / month)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	**(384)**
Non-Audit Hours	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(38)***	***(456)***
Available Audit Hours (per person)	***90***	***146***	***98***	***138***	***98***	***42***	***130***	***106***	***122***	***138***	***138***	***82***	***1,328***
# of Audit Staff	8	8	10	10	10	10	10	10	10	10	10	10	**10**
Available Audit Hours	***720***	***1,168***	***980***	***1,380***	***980***	***420***	***1,300***	***1,060***	***1,220***	***1,380***	***1,380***	***820***	***12,808***
Court Team #1	270	438	392	552	392	168	520	424	488	552	552	328	**5,076**
Court Team #2	180	292	294	414	294	126	390	318	366	414	414	246	**3,748**
Internal Review Team	270	438	294	414	294	126	390	318	366	414	414	246	**3,984**

	2018-19											
	July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services												
Court Team #1	**Siskiyou**	**Ventura**			**Glenn**		Flex	**San Francisco**			**Modoc**	
Court Team #2	**Sacramento**			**5th DCA**		Flex	**San Benito**			Flex	**Trinity**	
Internal Review Team	Internal Reviews	**Court Innovations Grant**				Internal Reviews	**Court Innovations Grant**			Internal Reviews		
State Controller's Office	**Sacramento / Amador**		**San Mateo / Sonoma / Tehama**		***Add'l Courts TBD - Based on Funding***							
							Judicial Council					
State Auditor's Office	**Procurement Audit of 5 Trial Courts - Courts TBD**									**Procurement Audit of Judicial Council**		
Department of Child Support Services	**AB 1058 Audits at Courts - TBD**											

Note: The court audits scheduled in this table are subject to change based on each court's availability, Audit Services' resources, and changing audit priorities based on risk.

The timeframes shown above for Audit Services' court-specific audits are high-level estimates and are intended to depict the time between the start of the audit (i.e. the entrance conference) to the substantial completion of fieldwork and the delivery of any findings to the court's management for their official comment. Audit Services will provide each court with a reasonable period of time—up to three weeks—to provide its official response and corrective action plan before making preparations to share the report with the audit committee. As a result,

final audit reports may come to the audit committee up to a month after the anticipated timeframes shown in the table.

Prior Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year's annual audit plan. Table 3 shows all 58 superior courts, listed by the time elapsing since its previous audit. The time elapsing will always be a significant consideration for Audit Services when scheduling audits, but other factors (such as location and court size) will also be considered so as to maximize the number of audits that can be completed each year. Audit Services also tentatively plans to audit at least one appellate court each fiscal year.

Table 3 – Schedule of Previous and Planned Superior and Appellate Court Audits

		(Current Plan)	(Next Year)			(Current Plan)	(Next Year)
Appellate / Superior Court	**Date of Last Audit Report**	**FY 2018/19**	**FY 2019/20**	**Appellate / Superior Court**	**Date of Last Audit Report**	**FY 2018/19**	**FY 2019/20**
1st DCA	N/A		Y	55. Tuolumne	2/1/2012		
2nd DCA	N/A			26. Mono	3/1/2012		
4th DCA	N/A			50. Stanislaus	4/1/2012		
5th DCA	N/A	X		8. Del Norte	9/1/2012		
6th DCA	N/A			42. Santa Barbara	11/1/2012		
47. Siskiyou	October-08	IP		27. Monterey	12/1/2012		
56. Ventura	December-08	X		30. Orange	12/1/2012		
35. San Benito	September-09	X		19. Los Angeles	2/1/2013		
25. Modoc	January-10	X		1. Alameda	3/1/2013		
11. Glenn	February-10	X		23. Mendocino	7/1/2013		
53. Trinity	April-10	X		58. Yuba	8/1/2013		
34. Sacramento	May-10	X		21. Marin	10/1/2013		
38. San Francisco	May-10	X		51. Sutter	11/1/2013		
52. Tehama	June-10		Y	20. Madera	6/1/2014		
41. San Mateo	September-10		Y	29. Nevada	7/1/2014		
18. Lassen	November-10		Y	17. Lake	8/1/2014		
46. Sierra	November-10		Y	40. San Luis Obispo	12/1/2014		
44. Santa Cruz	December-10		Y	36. San Bernardino	1/1/2015		
32. Plumas	January-11		Y	57. Yolo	2/1/2015		
45. Shasta	January-11		Y	54. Tulare	7/1/2015		
28. Napa	March-11			16. Kings	10/1/2015		
3. Amador	April-11			12. Humbolt	12/1/2015		
9. El Dorado	April-11			7. Contra Costa	2/1/2016		
37. San Diego	April-11			10. Fresno	6/1/2016		
39. San Joaquin	April-11			15. Kern	8/1/2016		
49. Sonoma	April-11			31. Placer	10/1/2017		
2. Alpine	July-11			24. Merced	1/1/2018		
14. Inyo	July-11			4. Butte	4/1/2018		
13. Imperial	August-11			3rd DCA	5/1/2018		
33. Riverside	October-11			48. Solano	6/1/2018		
43. Santa Clara	December-11			6. Colusa	6/1/2018		
22. Mariposa	January-12			5. Calaveras	6/1/2018		

Notes:
"IP" = In progress
"X" = Scheduled for audit in annual audit plan
"Y" = Tentative for following year's audit plan

Attachment B: Recap On Common Trial Court Audit Findings (From FY 17-18)

Most Common Audit Findings (by area) - 6 Superior Courts

	# of Findings	Courts' Perspecitves			
Cash Handling		*Agree*	*Partially Agree*	*Partially Disagree*	*Disagree*
Payments Received By Mail	**12**	7	5		
Handwritten Receipts	**3**	3			
Bank Deposits	**3**	3			
Change Fund	**3**	2	1		
Other	**3**	3			
Total	**24**	18	6	0	0
Procurements & Contracts					
Contract Terms	**4**	3	1		
Procurement Initiation	**3**	3			
Purchase Cards	**3**	3			
Other	**5**	5			
Total	**15**	14	1	0	0
Payment Processing					
Travel Expense Claims	**10**	10			
In-Court Service Providers	**5**	4	1		
Business-Related Meals	**4**	3			1
Other	**6**	5			1
Total	**25**	22	1	0	2
Other Areas					
JBSIS	**7**	7			
Other	**4**	3		1	
Total	**11**	10	0	1	0
Total Audit Findings Issues	**75**	64	8	1	2
	100%	85%	11%	1%	3%

Cash Handling

Payments Received By Mail

Courts Not Restrictively Endorsing Checks Upon Receipt

By restrictively endorsing checks immediately upon receipt, a court reduces the risk of a court employee stealing and depositing a check for personal use. The Trial Court Financial Policies and Procedures Manual (FIN Manual) requires that this control be in place, stating "a trial court must restrictively endorse all checks, warrants, money orders, and other negotiable instruments immediately upon

receipt and acceptance."[1] Audit Services observed that this control was not consistently applied at four of the six superior courts we audited this past fiscal year. All four courts agreed with this finding and generally indicated they would develop local court policies and further train their staff.

Lack of Two-Person Team Approach When Processing Payments Received by Mail

Receiving and processing payments received by mail is an inherently risky process given that the paying member of the public is not present for the transaction and the court may not generate a receipt. To maintain accountability for payments received through the mail, the FIN Manual recommends that courts use a two-person team approach to open mail payments, while recording the payments received on a payment receipts log. If a two-person team approach is not feasible given a court's available staffing, the FIN Manual suggests alternative procedures that may be followed to ensure adequate control is maintained over the funds received.[2] Regardless of the method followed, the FIN Manual's suggested procedures are intended to reduce the risk that the public's payments will become lost or stolen.

We found that four of the six superior courts we reviewed did not follow the FIN Manual's suggested two-person team approach, nor did they have and follow alternative procedures that were approved by the Judicial Council. In general, we found that an individual court employee would often open and process mail payments (and in some instances would do so while being out of the view of other court employees). Courts generally cited the lack of available staff to implement the two-person team approach. Audit Services recommended that courts might consider the FIN Manual's alternative procedures or consider sending all mail and drop-box payments to a central location for processing where the two-person team approach might be more easily implemented. In response, many courts stated that the FIN Manual's policies were only "suggestions" and were not mandatory, explaining that they would consider implementing the control if they are able to hire additional staff.

[1] FIN 10.02, Sec. 6.3.4
[2] FIN 10.02, Sec. 6.4(2)

Courts Not Using Payment Receipt Logs to Ensure Control Over Payments Received by Mail

In addition to the recommended two-person team approach, the FIN Manual suggests that courts maintain a mail payment receipts log. Without such a log, according to the FIN Manual, "courts have no record to reference or research should a mail payment become lost or stolen." The log should contain information such as: the case or docket number; name of the person making payment; the cash, check or money order amount; the date received; the name of the person opening the mail and recording the payment on the log.[3]

Four of the six courts were reviewed did not maintain payment receipt logs, or instead maintained them for only certain kinds of payments. For example, one court used a payment receipt log only for mail payments (but not for payments received through the drop box even though the circumstances and risks are essentially the same). Another court only used a payment receipt log for criminal matters while others did not maintain payment receipt logs at all. Some courts indicated a willingness to try to consistently use payment receipt logs, but cited concerns over their limited staffing. Other courts responded by saying the FIN Manual's policies in this area are only suggested procedures.

Although the mail payment receipts log is a highly suggested procedure and is not mandatory, without maintaining such a log it is unclear how court staff would be able to inform the court's CEO/CFO that certain mail payments had gone unprocessed for more than 15 calendar days. The reporting of unprocessed mail payments to the court's CEO/CFO is mandatory per the FIN Manual.[4]

Handwritten (Manual) Receipts

Courts Do Not Consistently Keep Track of Issued Manual Receipt Books

Manual receipts should only be used as a backup procedure when the court's cashiering system and/or automated case management system (CMS) is "down" or cannot be accessed to enter case payment transactions, including the issuance of system receipts. The use of manual receipts must be tightly controlled, since the improper use of manual receipts could allow a court employee to accept a payment, issue a manual receipt, and then keep the money and not record the payment in the court's CMS system.

[3] FIN 10.02, Sec. 6.4(3)
[4] FIN 10.02, Sec. 6.4(4)

The FIN Manual states that a supervisor at each court facility must record and log all manual receipt books received, and store and secure receipt books in a locked cabinet or safe. A supervisor at each court facility must also maintain an accounting of the receipt books used, including:[5]

- the receipt book issued
- to whom the receipt book was issued
- the date issued
- the person returning the book(s)
- the date the books are returned (should be same day), and
- the receipt numbers used within each book

Our review found that three of the six courts we reviewed could not fully account for their manual receipt books because either they did not maintain a log or did not maintain an accurate log. All three courts agreed with our finding and noted that they would be developing procedures, including periodic monitoring to ensure these procedures would be followed.

Bank Deposits

Courts Do Not Require a Second Person to Verify the Deposit Amount Prior to Sending It to the Bank

The FIN Manual requires that one person must count the coin and paper currency portion of any bank deposit—which must be verified and initialed by a second person (preferably a supervisor or lead)—prior to tendering the deposit to either: an armored car service; a court employee for deposit at the bank; or a bank messenger.[6] This control is intended to reduce the likelihood of a court employee intercepting public funds prior to deposit at the bank. Two of the six courts we reviewed did not always have a second person verify the deposit amount as required. Both courts explained they had insufficient staff to implement the control. One of the two stated they would try to implement the control going forward, while the other court responded that it would seek the Judicial Council's approval for alternative procedures and may conduct random spot checks of deposit amounts.

[5] FIN 10.02, Sec 6.3.9(5) & 6.3.9(6)
[6] FIN 13.01, Sec 6.4(3)(b)

Change Fund

Courts Do Not Require the Custodian of the Change Fund to Count/Verify the Fund Balance In the Presence of a Designated Person At the End of Each Day

Trial courts may establish a cash change fund in each location that collects payments to provide cashiers with access to currency and coin in denominations and amounts necessary to permit the making of change in the daily cash collection operations of a trial court. According to the FIN Manual, individuals responsible for making change from the change fund must—in the presence of a manager, supervisor, or designee—count, verify and reconcile change fund monies to the day's beginning balance.[7] For two of the six superior courts we reviewed, the court did not require this daily counting and two-person verification. Both courts had local cash handling procedures that did not address the FIN Manual's requirements concerning the change fund. Both courts agreed with the finding and reported that they planned to follow the FIN Manual's requirements in the future.

Procurements & Contracts

Contract Terms

At Times Courts Do Not Execute Contracts Prior to Vendors' Commencement of Work, and Sometimes With No Contract At All

The FIN Manual states that courts must execute written contracts when entering into agreements for services or complex procurements of goods.[8] The FIN Manual also states that courts must match a vendor's invoice to the details, terms, and conditions of the underlying contract or purchase agreement.[9] Establishing clear contracts before a vendor begins work, and subsequently verifying invoices against the terms of these contracts and purchase orders, helps to protect the court's interests by ensuring it ultimately receives the goods or services it intended at the agreed-upon price. For many of the courts we reviewed, we found instances when the court had procured goods or services without a contract or purchase order (or did so with documents that lacked price information or clear dates of service). For example, a few courts received services from contract court interpreters and court reporters, but did not enter into any written agreement with these vendors beforehand. As a result, these courts would be at a disadvantage

[7] FIN 10.02, Sec 6.3.1(7)
[8] FIN 7.01, Sec 3.0
[9] FIN 8.01, Sec 6.3.2(2)

should disputes occur regarding the agreed-upon payment amount or the dates of service. Some courts explained that the FIN Manual does not apply to these types of contracts.

Audit Services recognizes that there may be confusion among the courts regarding whether written agreements are required for in-court service providers. The confusion results from Audit Services' use of the FIN Manual as a source of criteria, since the JBCM supersedes the FIN Manual.[10] However, the JBCM explicitly states that it "does not address" procurements involving court reporters and court interpreters.[11] As a result, the FIN Manual remains the only source of criteria relevant to these types of procurements. Ultimately, Audit Services believes it is a reasonable business practice for courts to develop short, one-page contracts with these in-court service providers so that the services provided—and the amounts to be paid—are agreed upon and documented prior to the commencement of work. The courts generally agreed with this finding, and some are waiting for further guidance from the Court Executives Advisory Committee before proceeding.

Procurement Initiation

Courts Lacked Purchase Requisition Forms to Demonstrate Management's Determination That a Legitimate Business Need Existed and That Sufficient Funds Were Available

Before a court's resources are expended to secure a contract or purchase order for needed goods and services, the FIN Manual states that "a written or electronic purchase requisition is used to initiate all procurement actions."[12] The requisition form is used to specify what goods or services staff request be purchased, along with the funding sources that will be used. Another authorized individual (different from the requestor) is responsible for verifying that a business need exists for the procurement, and that sufficient funds are available. Without following a purchase requisition process, courts are at risk of spending time and effort to pursue procurements they may not need or where sufficient funding is not available. Three of the six courts we reviewed did not consistently follow the purchase requisition and approval process. At two of these three courts, more than half of the procurements we sampled (24 and 15 items respectively) lacked purchase requisitions.

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[10] JBCM, Introduction, Sec 6
[11] JBCM, Introduction, Sec 5
[12] FIN 6.01, Sec 6.3(1)

Purchase Cards

Individual Transactions Exceeded Purchase Card Limit of $1,500, Without Alternative Local Rules

The JBCM establishes a limit $1,500 per transaction when using a purchase card, which may be modified pursuant to the court's own local policies.[13] Purchase cards act like credit cards, and are intended to be a convenient way of making relatively small purchases. In general, purchase cards should only be used for the purchase of goods, such as library subscriptions, office supplies, and minor equipment; however, purchasing services are also allowable. Regardless, the per transaction limit of $1,500 is intended to ensure purchase cards are only used for relatively small dollar-value transactions, and are not used to circumvent established procurement procedures.

Our review found that three of the six superior courts we reviewed exceeded the $1,500 limit on more than one occasion, and each did not have alterative local rules specifying a higher limit for purchase card transactions. Generally, all three courts exceeded the $1,500 limit by purchasing IT goods and services, such as desktop computers. In one case, the IT goods purchased in a single purchase card transaction exceeded $5,000. Although these courts did not dramatically exceed the $1,500 limit, Audit Services is raising this issue because these courts lacked a general awareness of the JBCM's limits on purchase cards.

Payment Processing

Travel Expense Claims

Incomplete Information on Travel Claims Prevents Courts From Critically Evaluating Claimed Costs

The FIN Manual specifies the information required on all travel expense claims such that court management can verify the accuracy and reasonableness of the amounts claimed by travelers. For example, the FIN Manual requires travelers to state the business purpose of the trip and include only allowable expenses—such as meals and lodging costs—based on the *Judicial Branch Travel Guidelines*.[14]

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[13] JBCM, Chapter 9, Sec 9.2(B)(3)
[14] FIN Manual 8.03, Sec 6.4.1 & 6.4.2

Our review found that all six superior courts approved travel expense claims (TEC) without all the information necessary to properly scrutinize these costs. The most common error Audit Services noted was court employees not specifying the beginning and end dates/times of travel. Without knowing the total duration of travel (or the time of day when travel began/ended), court management cannot evaluate whether a traveler's reimbursement claim for a particular meal was appropriate. At one court where this information was consistently provided, we noted four instances where the court approved meal reimbursement that was unallowable. Another common error we noted was court employees not demonstrating that the mileage amount claimed was the lesser distance between home or headquarters to the business destination. Further, some of the travel expense claims at two of the six superior courts did not specify the business purpose of the trips. The courts generally agreed with these findings and explained that either their employees did not closely scrutinize travel claims and/or required additional training.

Court Staff Should Not Be Approving the Travel Expense Claims of Judicial Officers

The FIN Manual states that judges and employees who incur reimbursable business travel costs must submit a completed travel expense claim (TEC), which is approved and signed by the judge's or employee's appropriate approval level.[15] The FIN Manual purposefully makes a distinction between different approval levels for judges and court employees. A court's CEO or lower-level employee may feel uncomfortable challenging or disallowing certain travel costs claimed by a judge. In which case, having the court's Presiding Judge or Assistant Presiding Judge reviewing/approving the TECs claimed by other judges seems more likely to result in a properly scrutinized claim.

At three of the six superior courts we reviewed, we noted that a judge's TEC was approved by a court employee instead of another judge. At one court, we noted that certain costs claimed by the court's presiding judge was not substantiated with a receipt, and court staff indicated they were not in the habit of questioning the expenses claimed by the presiding judge. In examples from other courts, we noted that some judge TECs lacked certain information (such as the start and end times of travel) that would allow a reviewer to determine whether certain claimed expenses were allowable. Courts generally agreed with the finding and indicated they would be revising their policies.

[15] FIN Manual 8.03, Sec 6.4.1(1)(a)

In-Court Service Providers

Courts Are Limited in Their Ability to Verify the Reasonableness of In-Court Service Providers' Claims, Since Written Court Authorizations Defining the Appointment, Payment Rates, and Any Limits Often Do Not Exist

In addition to courts not entering into contracts for certain in-court service providers, courts also do not issue written court authorizations that detail the appointment, payment rate, and any hour or dollar limits. As a result, court accounts payable staff are unable to perform the 3-point match process specified in the FIN Manual or otherwise reconcile the claim to the original authorization for services.[16] These court authorizations are like work orders issued from a master contract that specify the work assignment, state any limits, and may provide for increases in the standard rates or costs that are justified due to unusual circumstances. Without some type of written court authorization beforehand, courts risk paying for unauthorized in-court services and overpaying for services when amounts claimed exceed any undocumented negotiated rate, costs, or limits.

Five of the six superior courts we reviewed did not consistently have written court authorizations specifying the appointment, agreed-upon rates, and any limits for in-court service providers. In response, some courts indicated that they relied on their standing orders which dictate the pricing for certain in-court services and, when providers request rates that exceed standard pricing, management may approve higher rates either verbally or in writing. Other courts believed the claim forms that document the services provided and the rate paid were sufficient. While other courts believed tracking in-court service provided assignments in a calendar was sufficient. Although each of these court practices provide some assurance regarding the validity of appointments and rates, Audit Services believes it is reasonable for courts to issue short, one-page court authorizations for specific work assignments to detail the appointment, payment rates, and any hour or dollar limits prior to the commencement of work. Doing so better positions court staff to subsequently ensure that in-court service provider claims are consistent with the court's original authorizations. Four of the five courts indicated that they would begin developing non-lengthy authorization forms that could be used to validate in-court service provider claims, while the other court indicated it would be seeking further guidance on the issue from the Court Executives Advisory Committee.

[16] FIN Manual 8.02, Sec 6.8

Business-Related Meals

Business Meal Rules Not Always Followed, and Some Meals May Not Be a Prudent Use of Trial Court Funds

Trial court judges and employees are normally responsible for their own meals during the workday at their primary place of employment. With proper advance approval, business meal expenditures connected to trial court business are permissible and the court may pay those expenses up to certain specified limits.[17] Among the documentation required for business meals, courts are required to maintain the following:

- Date of the business meal and scheduled start/end times of the meeting
- Statement explaining the business purpose of the meeting
- Copy of the formal agenda, if applicable
- List of expected attendees, their titles and affiliations

Two of the six superior courts we reviewed did not always adhere to these requirements. Specifically, one court exceeded the per meal limits specified in the FIN Manual, while the other court did not keep a list of attendees, thus preventing the court from demonstrating the event's per-person cost. In another instance, one court spent more than $2,200 on lunches for court employees attending the court's 2016 holiday luncheon. This event also included $171 in awards provided to staff from a division that had won first place in a team building contest.

Both courts indicated that exceeding (or not documenting) the costs per person was an oversight and would be addressed through internal procedures. The one court that had spent Trial Court Trust funds on its 2016 holiday luncheon claimed it was an important morale-building exercise, and thus related to court business and was fully appropriate. Audit Services agrees there is value in holding such events, but recommends that courts find alternative ways to pay for these activities by not using trial court funding provided by the State. Using state funds for holiday luncheons and prizes unnecessarily exposes courts to public claims that it could have better spent these funds more directly on court operations.

[17] FIN Manual 8.05, Sec 6.1 through 6.8