JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

http://www.courts.ca.gov/auditcommittee.htm
AuditCommittee@jud.ca.gov

AUDITS AND FINANCIAL ACCOUNTABILITY COMMITTEE

OPEN MEETING AGENDA

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

THIS MEETING IS BEING CONDUCTED BY ELECTRONIC MEANS

THIS MEETING IS BEING RECORDED

Date:	August 23, 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 June 19, 2018 audit committee meeting.

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 August 22, 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 (Items 1-3)

Item 1

Annual Audit Plan for FY 2018-19 — Review, Discussion & Potential Approval (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

Item 2

New CEO Review Process (Action Required)

Discuss and potentially approve the proposed protocols for superior courts to request *New CEO Reviews*.

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

Item 3

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

Review and approve for posting the audit titled, *Superior Court of Sacramento County — Validity of Recorded Revenues, Expenditures and Fund Balances*

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

V. ADJOURNMENT

Adjourn the meeting.

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MINUTES OF OPEN MEETING WITH CLOSED SESSION

June 19, 2018
12:15 pm
Conference call

Advisory Body Members Present:	Hon. David Rosenberg, Hon. Peter Siggins, Hon. Mary Ann O'Malley, Mr. Kevin Harrigan, Mr. Kevin Lane, Ms. Sherri Carter, Ms. Tania Ugrin-Capobianco and Mr. Phil Jelicich
Advisory Body Members Absent:	Hon. Susan Matcham
Others Present:	Mr. Grant Parks, Mr. Robert Cabral, Ms. Pamela James, Ms. Karen Camper, Mr. Brian Taylor, Agnes Shappy, Mr. Jason Galkin

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

Hon. Mary Ann O'Malley moved to approve the minutes of the May 23rd meeting, Ms. Tania Ugrin-Capobianco seconded the motion. There was no further discussion of the minutes. Motion to approve passed by unanimous voice vote of the committee members present.

Ms. Ugrin-Capobianco moved to approve the minutes of the June 1st action taken by email, Hon. Peter 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. Grant Parks informed committee members that the audit of Siskiyou is still in process, and he expects to have the report ready sometime in August. Auditors held entrances conference with Ventura and Sacramento this month, and these reports are expected to be completed this fall.

As for the staffing level, Audit Services currently has only one vacant position. The office has hired experienced staff over the last year, who come with many years of governmental auditing experience and hold qualifications like Certified Public Accountant, Certified Internal Auditor and Certified Fraud Examiner.

The State Controller's Office continues to audit trial court expenditures and fund balance of five superior courts. The audit of Sacramento is the one closest to completion, and Mr. Parks expects to share this report with the committee in August, while other reports will likely come in the October-November timeframe. As for the AB1058 audits, DCSS and Judicial Council executive management have had positive discussions, but there is no definitive information to share with the committee at this time.

Info Item 2.

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

Action Item 1.

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

Mr. Parks informed committee members that staff are seeking the committee's input on and possible approval of next year's audit plan. Staff provided the draft audit plan and it mirrors the prior year's plan in terms of overall scope. Cash handling continues to be an area of high risk that will continue to be a focus of our audit work. Similarly, payment processing and procurement activities are going to remain in audit plan. Audit Services' audit plan will also continue to focus on court reporting of case filings data to the Judicial Branch Statistical Information System (JBSIS). Audit Services staff have also prepared a recap summary of the 75 findings that they wrote this past fiscal year, which also counts how often courts either agree or disagree with the reported audit findings. Courts often indicated that they agreed with the reported findings.

The proposed audit plan lists the courts Audit Services will audit in the next fiscal year, and it provides information regarding when audit staff expect to start fieldwork at these various courts on a calendar basis. Sacramento and Ventura courts will be audited this fall, while the 5th District Court of Appeal and Glenn will be audited in the winter. San Benito and San Francisco will be audited in spring, Modoc and Trinity are expected to be audited in summer. Mr. Parks has also reserved some time for the staff to audit court spending under the Court Innovations Grant Program.

Mr. Kevin Lane shared his concern that Audit Services will spend more time auditing courts in northern California than in southern California, especially the Courts of Appeal. Mr. Parks replied that if the committee members want to replace/change some courts on the audit schedule, Audit Services can do that. Judge Rosenberg shared his opinion that it sounds reasonable to do an audit

of a Court of Appeal from southern California, after Audit Services completes an audit of one in northern California. Judge Rosenberg also commented that there is a strong feeling on this committee that we need to ratchet up the audits of courts of appeal, since they haven't been audited for a long time. Justice Siggins suggested that if audits of the Court Innovations Grant (CIG) program continue to be delayed because of limited grant spending, then perhaps staff can add an appellate court to the schedule. Mr. Parks replied that he will check with his staff and they will find a way to make that work.

Ms. Tania Ugrin-Capobianco asked if there should be an audit every time a new court executive officer is hired. Committee members discussed that while it will be a good practice to audit a court every time a new CEO is hired, it might not always be feasible given Audit Services' resource constraints. Committee members discussed one possible solution wherein Audit Services could "spot-check" (i.e. perform a limited review) when a new CEO requests it. Mr. Parks said he will make some revisions to audit calendar/schedule to reserve some time for these types of limited reviews.

Ms. Sherri Carter raised the issue of developing an internal controls manual that would help new CEOs to do a self-assessment. Judge Rosenberg suggested that Audit Services Office review the manual that Ms. Carter developed for the federal courts. Mr. Parks replied that Audit Services has been working towards developing self-assessment checklists for the courts. The Judicial Resources Network currently has a cash handling checklist. Since the FIN Manual was recently updated, Audit Services will have a new updated cash handling checklist in a couple of weeks, in addition to procurement and payment processing checklists. Mr. Parks is hoping those checklists will include high-level flow charts depicting typical controls at the courts and could help new CEOs evaluate their new court's operations.

Mr. Harrigan asked Mr. Parks to clarify the committee's responsibilities "to make recommendations" regarding any proposed changes to the annual compensation plan for Judicial Council staff. Mr. Harrigan asked how that responsibility is addressed in the proposed audit plan. Mr. Parks explained that if and when proposed changes to compensation are made, this committee will have the opportunity to either recommend for or against the proposal before it goes to the full Judicial Council for formal review. California Rules of Court provides the committee with this role and it is similar to its responsibilities for considering proposed changes to the Judicial Branch Contracting Manual.

Action: No action was taken since annual audit plan needs to be updated based on recommendations from the committee members.

ADJOURNMENT

There being no further open meeting business, the meeting was adjourned to closed session at 12:47 pm.

CLOSED SESSION

Item 1

Draft Audit Report of the Superior Court of California, County of Solano **- Rule of Court 10.75(d) (6) (Action Required) – Rule of Court 10.75(d) (6) (Action Required)**

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

Action: Ms. Sherri Carter moved that the audit of the Superior Court of California, County of Solano be approved and posted publicly (seconded by Mr. Kevin Harrigan). With no further discussion, the motion passed by unanimous voice vote of the committee members present.

Item 2

Draft Audit Report of the Superior Court of California, County of Colusa **– Rule of Court 10.75(d) (6) (Action Required)) – Rule of Court 10.75(d) (6) (Action Required)**

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

Action: Hon. Mary Ann O'Malley moved that the audit of the Superior Court of California, County of Colusa be approved and posted publicly (seconded by Ms. Sherri Carter). With no further discussion, the motion passed by unanimous voice vote of the committee members present.

Item 3

Draft Audit Report of the Superior Court of California, County of Calaveras **– Rule of Court 10.75(d) (6) (Action Required) – Rule of Court 10.75(d) (6) (Action Required)**

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

Action: Ms. Sherri Carter moved that the audit of the Superior Court of California, County of Calaveras be approved and posted publicly (seconded by Hon. Mary Ann O'Malley). With no further discussion, the motion passed by unanimous voice vote of the committee members present.

Adjourned closed session at 1:10pm.

Approved by the advisory body on _____, 2018.

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ADVISORY COMMITTEE ON AUDITS AND
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JUDICIAL BRANCH

Meeting Date: 08/23/2018

Informational Item #1 – (No Action Required)

Report from Audit Services

Status Update – Judicial Council's Audit Services

Staffing & Workload

Audit Services will have the audit report for Siskiyou available for the audit committee in September, while much of the cash handling audit work at Sacramento and Ventura counties is underway or nearing completion. Audit staff conducted onsite audit fieldwork at Ventura (week of July 14th) and Sacramento (week of July 23rd). Both audit teams travelled again to Ventura and Sacramento during the week of August 13th and both audits are expected to come before the committee in late-October / early-November. Audit Services has extended a job offer to fill our final auditor vacancy, and we anticipate being fully staffed by September 1st. Once filled, Audit Services will have seven auditors in Sacramento who focus solely on audits of the superior and appellate courts per the committee's annual audit plan.

Update on Court Innovations Grant Program

Audit Services issued an audit advisory on June 29, 2018 to court executive officers who had received funding under the Judicial Council's Court Innovations Grant Program (CIG Program). The audit advisory is included for your reference (Attachment A), and was issued at the request of the Administrative Director and the Chair of the Judicial Branch Budget Committee. The audit advisory notes that the pace of spending within the CIG Program will need to significantly increase in order for courts to complete their projects within the remaining period of availability. Attachment B provides an overview of CIG awards, disbursements and expenditures by court and by project. As of August 12th, courts have cumulatively spent $5.2 million (or 33.2 % of the total amount disbursed). Courts have until June 30, 2020 (or 22 months) to fully expend their CIG Program funds. Audit Services will continue to monitor the pace of spending and tentatively plans to initiate a few CIG Program audits in October 2018.

Audit Services Communicating Audit Findings to CEAC

The Court Executives Advisory Committee (CEAC) requested that Audit Services provide an overview of its previous findings regarding contractual court interpreters, so that it may consider whether existing pay policies require revision and clarification.

Audit Services developed a discussion document explaining the issues, which is included (Attachment C) in this agenda item. Ms. Sherri Carter has requested that Audit Services suspend auditing the superior courts' compliance with the Judicial Council's interpreter payment rules, pending further policy revisions. The committee will need to consider Ms. Carter's request when considering the approval of the FY 18/19 annual audit plan, which is a later agenda item for this meeting.

Update on JBSIS Data Quality Standards

Finally, the audit committee's April 2018 letter to CEAC regarding the need to create data quality standards for the Judicial Branch Statistical Information System (JBSIS) is creating discussion and potential action. On August 10th, CEAC's JBSIS Subcommittee discussed potential data quality standards, which include establishing a tolerable error rate of 2% for any single reported case type. Attachment D includes more detail on the proposed data quality standards that were discussed.

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 4 superior courts (listed below):

- Amador (expected September 2018)
- San Mateo (expected October 2018)
- Sonoma (expected October 2018)
- Tehama (expected October 2018)

Department of Child Support Services

DCSS has yet to issue final audit reports for six courts, and is awaiting a formal response from a 7th court. DCSS is currently drafting an 8th report. Audit Services anticipates that an announcement regarding the resolution of previously disallowed costs (totaling more than $2.2 million) will be made before the next audit committee meeting.

Supporting Documents:

- Attachment A – Audit Advisory Regarding Court Innovations Grant Program (June 29, 2018)

- Attachment B – CIG Program Disbursement and Spending Overview (as of August 12, 2018)

- Attachment C – Audit Services' Discussion Document to CEAC Regarding Payments to Court Interpreters (August 7, 2018)

- Attachment D – CEAC's Discussion Document on Proposed JBSIS Data Quality Standards (August 10, 2018)

JUDICIAL COUNCIL OF CALIFORNIA

2850 Gateway Oaks Drive, Suite 300 • Sacramento, California 95833-4348
Telephone 916-263-1400 • Fax 916-643-8028 • TDD 415-865-4272

AUDIT ADVISORY

Date
June 29, 2018

To
Executive Officers of the Superior Courts
Fiscal Contacts of the Superior Courts

From
Grant Parks, Principal Manger
Audit Services
Judicial Council of California

Subject
Audit Guidance: #2018-1
Funding Availability–Court Innovations Grant Program

Action Requested
Informational

Deadline
N/A

Contact
Grant Parks
916-263-1321 phone
Grant.Parks@jud.ca.gov

The Judicial Council's (council's) Office of Audit Services (Audit Services) periodically communicates audit guidance and/or best practices via memorandum to the superior courts (courts) for their consideration. By periodically issuing these memorandums, Audit Services hopes to (1) highlight common areas of risk or best practices; (2) explain the council's criteria on the issue, if applicable; and (3) provide the courts with an opportunity to review their existing practices—prior to an audit—so they can improve or strengthen their processes and/or internal controls. The sections that follow provide further background, a description of a potential audit issue, and recommendations for court management's consideration.

Background

Issue Area: Grant Accounting
Sub-Area: Court Innovations Grant Program (Award Availability)

Applicable Criteria:

Interagency Branch Agreement, Exhibit A(4) – Project Schedule

The court will complete the Project no later than June 30, 2020 (the "Project End Date"). Due to grant restrictions, requests for extensions of time past June 30, 2020, cannot be considered.

Interagency Branch Agreement, Exhibit B(4) – Payment Provisions, Disbursement Process

(A)(v) Unused funds documentation will be reviewed by the Judicial Council, and a decision will be made whether unused funds can roll over to a subsequent year or will be returned to the grant fund.

Description of Potential Audit Issue

The judicial branch has a significant interest in demonstrating both the continued progress and resulting innovation, modernization, and efficiencies gained from the Court Innovations Grant (CIG) program. Through the Budget Act of 2016, the Legislature appropriated $25 million to the judicial branch for a competitive grant program—the CIG program—where courts would compete for the chance to use one-time funding for the development of innovative programs and practices that: (1) would be sustainable after the grant award period; and (2) could be adopted and replicated by other courts. Under state law, the council is required to report the CIG program's accomplishments to the Legislature by September 30th of each year.

The courts have limited time to spend their CIG awards. The start of fiscal year 2018–19 marks the beginning of the final two years that remain before June 30, 2020 when the judicial branch must return all unused funds to the State. As of mid-June 2018, the Judicial Council has awarded $22.3 million in court-specific grant projects, of which it has disbursed $9.96 million based on each court's spending plan. However, a review of the courts' spending data in Phoenix shows that **only** $3.65 million (or roughly 36.6% of the total amount disbursed and 16.3% of the total $22.3 million awarded) has been spent.

While some of the delayed CIG spending has been expected, the overall pace of spending is significantly less than what courts had originally planned and reported to the council. Projects that are considerably behind their anticipated spending levels will need to significantly increase their pace of spending in order to complete their projects within the allotted legislative timeframes, and to position the judicial branch to successfully report program outcomes to the Legislature. To ensure the judicial branch can deliver on its promise to create and share innovative programs across the court system, it may be prudent for courts to reevaluate their planned CIG activities to ensure that these plans are realistic and attainable within the timeframe allowed by statute.

In consultation with the council's Administrative Director and the Special Projects Office, as well as the chair of the council's Judicial Branch Budget Committee, Audit Services has been asked to issue this audit advisory to remind courts that they have until June 30, 2020 to spend their CIG grant awards and to advise the following:

1. Audit Services will be monitoring CIG spending in relation to each project's approved spending plan. For courts and projects that are significantly behind schedule, Audit Services will make referrals to the council's Special Projects Office for an evaluation of whether the Judicial Branch Budget Committee should be notified.

2. The Special Projects Office will continuously brief the chair of the Judicial Branch Budget Committee regarding each project's overall status and rate of spending relative to its approved annual budget.

3. In the event the Judicial Branch Budget Committee desires to consider reducing or eliminating a grant award that has demonstrated insufficient progress, the Special Projects staff will provide advance notification to the affected court so it will have an opportunity to explain why its grant award should continue, and/or submit an updated project plan that provides reasonable assurance that the CIG program's goals and objectives will be achieved within the allotted time.

Recommendations

To reduce the likelihood that your court's CIG project will be selected for potential reduction or elimination, court managers should review their project's overall progress and rate of spending to make certain both are consistent with the currently approved project schedule and budget plan. If modifications are necessary, courts should immediately contact their representative in the council's Special Projects Office to provide updated budget information. Doing so will help ensure judicial council staff accurately convey your project's status to the Judicial Branch Budget Committee.

Attachment B - Court Innovations Grant Program (CIG) Spending Status -- As of August 12, 2018

Grantee / Court	SPO #	WBS	Grant Type	Total Awarded	Total Disbursed to Court	Total Spent By Court	Amount Spent as % of Disbursed	Amount Spent as a % of Total Award
ALAMEDA COUNTY SUPERIOR COURT	SPO561	G-011080-1	Collaborative	$ 114,223.00	$ 108,748.00	$ 30,533.08	28.1%	26.7%
CONTRA COSTA COUNTY SUPERIOR COURT	SPO580	G-071080-2	Collaborative	$ 367,974.33	$ 264,609.76	$ 70,955.28	26.8%	19.3%
FRESNO COUNTY SUPERIOR COURT	SPO586	G-101080-1	Collaborative	$ 383,651.00	$ 304,964.00	$ 255,066.81	83.6%	66.5%
HUMBOLDT COUNTY SUPERIOR COURT	SPO587A	G-121080-1	Collaborative	$ 1,414,209.82	$ 792,956.33	$ 104,209.41	13.1%	7.4%
INYO COUNTY SUPERIOR COURT	SPO588A	G-141080-1	Collaborative	$ 273,712.00	$ 180,685.00	$ 48,603.49	26.9%	17.8%
MENDOCINO COUNTY SUPERIOR COURT	SPO613	G-231080-1	Collaborative	$ 374,611.89	$ 233,409.95	$ 93,011.68	39.8%	24.8%
PLACER COUNTY SUPERIOR COURT	SPO640	G-311080-1	Collaborative	$ 560,000.00	$ 560,000.00	$ 124,904.63	22.3%	22.3%
SACRAMENTO COUNTY SUPERIOR COURT	SPO652	G-341080-2	Collaborative	$ 311,849.00	$ 208,926.00	$ 107,708.74	51.6%	34.5%
SAN DIEGO COUNTY SUPERIOR COURT	SPO663	G-371080-2	Collaborative	$ 1,484,758.85	$ 980,279.58	$ 291,543.89	29.7%	19.6%
SAN FRANCISCO COUNTY SUPERIOR COURT	SPO732	G-381080-1	Collaborative	$ 318,592.00	$ 221,961.28	$ 99,403.22	44.8%	31.2%
SAN JOAQUIN COUNTY SUPERIOR COURT	SPO671	G-391080-1	Collaborative	$ 1,982,207.94	$ 1,275,471.92	$ 580,236.44	45.5%	29.3%
SAN MATEO COUNTY SUPERIOR COURT	SPO673	G-411080-1	Collaborative	$ 1,012,477.00	$ 701,875.00	$ 205,050.97	29.2%	20.3%
SANTA CRUZ COUNTY SUPERIOR COURT	SPO730	G-441080-1	Collaborative	$ 1,174,633.00	$ 789,922.00	$ 233,248.06	29.5%	19.9%
SONOMA COUNTY SUPERIOR COURT	SPO694	G-491080-1	Collaborative	$ 56,476.00	$ 56,476.00	$ 56,476.00	100.0%	100.0%
STANISLAUS COUNTY SUPERIOR COURT	SPO699A	G-501080-1	Collaborative	$ 593,089.91	$ 395,626.60	$ 86,521.83	21.9%	14.6%
			Sub-Total	**$ 10,422,465.74**	**$ 7,075,911.42**	**$ 2,387,473.53**	**33.7%**	**22.9%**
CONTRA COSTA COUNTY SUPERIOR COURT	SPO734	G-071080-4	Other	$ 239,000.00	$ 233,900.00	$ 103.92	0.0%	0.0%
COURT OF APPEAL-FIFTH DISTRICT	SPO559	35011004	Other	$ 793,000.00	$ 4,500.00	$ 4,500.00	100.0%	0.6%
HUMBOLDT COUNTY SUPERIOR COURT	SPO587C	G-121080-2	Other	$ 170,919.87	$ 170,919.87	$ 92,590.14	54.2%	54.2%
LOS ANGELES COUNTY SUPERIOR COURT	SPO601	G-191080-3	Other	$ 637,500.00	$ 637,500.00	$ 274,500.00	43.1%	43.1%
LOS ANGELES COUNTY SUPERIOR COURT	SPO592	G-191080-1	Other	$ 114,760.00	$ 114,760.00	$ 68,235.36	59.5%	59.5%
MERCED COUNTY SUPERIOR COURT	SPO615	G-241080-1	Other	$ 218,500.58	$ 184,060.00	$ 168,813.72	91.7%	77.3%
MONTEREY COUNTY SUPERIOR COURT	SPO620	G-271080-1	Other	$ 209,360.74	$ 209,360.74	$ -	0.0%	0.0%
ORANGE COUNTY SUPERIOR COURT	SPO626	G-301080-3	Other	$ 246,190.00	$ 246,190.00	$ 11,904.00	4.8%	4.8%
ORANGE COUNTY SUPERIOR COURT	SPO627	G-301080-4	Other	$ 212,972.00	$ 166,892.00	$ 2,277.32	1.4%	1.1%
ORANGE COUNTY SUPERIOR COURT	SPO625	G-301080-2	Other	$ 938,851.34	$ 938,851.34	$ 211,393.75	22.5%	22.5%
ORANGE COUNTY SUPERIOR COURT	SPO624	G-301080-1	Other	$ 511,200.00	$ 340,800.00	$ 122,294.00	35.9%	23.9%
SACRAMENTO COUNTY SUPERIOR COURT	SPO651	G-341080-1	Other	$ 66,249.00	$ 66,249.00	$ 59,297.03	89.5%	89.5%
SAN BERNARDINO COUNTY SUPERIOR COURT	SPO658	G-361080-3	Other	$ 295,194.74	$ 158,247.61	$ 92,601.05	58.5%	31.4%
SAN MATEO COUNTY SUPERIOR COURT	SPO675	G-411080-3	Other	$ 125,000.00	$ 125,000.00	$ -	N/A	0.0%
SANTA CRUZ COUNTY SUPERIOR COURT	SPO736	No Agreement	Other	$ 119,390.28	$ -	$ -	N/A	0.0%
			Sub-Total	**$ 4,898,088.55**	**$ 3,597,230.56**	**$ 1,108,510.29**	**30.8%**	**22.6%**
BUTTE COUNTY SUPERIOR COURT	SPO567	G-041080-1	Self Help	$ 576,140.00	$ 576,140.00	$ 281,655.92	48.9%	48.9%
CONTRA COSTA COUNTY SUPERIOR COURT	SPO578	G-071080-3	Self Help	$ 970,365.00	$ 339,688.00	$ 249,486.95	73.4%	25.7%
COURT OF APPEAL-FIFTH DISTRICT	SPO558	35011003	Self Help	$ 317,916.00	$ 80,000.00	$ 80,000.00	100.0%	25.2%
EL DORADO COUNTY SUPERIOR COURT	SPO585	G-091080-1	Self Help	$ 66,599.00	$ 52,450.00	$ 45,226.00	86.2%	67.9%
LOS ANGELES COUNTY SUPERIOR COURT	SPO597	G-191080-2	Self Help	$ 59,373.00	$ 59,373.00	$ -	0.0%	0.0%
MONTEREY COUNTY SUPERIOR COURT	SPO621	G-271080-2	Self Help	$ 789,940.00	$ 522,280.00	$ 134,102.20	25.7%	17.0%
ORANGE COUNTY SUPERIOR COURT	SPO631	G-301080-5	Self Help	$ 326,800.00	$ 314,608.00	$ -	0.0%	0.0%
RIVERSIDE COUNTY SUPERIOR COURT	SPO647	G-331080-1	Self Help	$ 648,774.14	$ 522,094.90	$ 315,432.75	60.4%	48.6%
RIVERSIDE COUNTY SUPERIOR COURT	SPO648	G-331080-2	Self Help	$ 46,865.65	$ 41,233.03	$ 22,036.79	53.4%	47.0%
RIVERSIDE COUNTY SUPERIOR COURT	SPO725	G-331080-3	Self Help	$ 178,732.14	$ 172,466.90	$ 7,052.69	4.1%	3.9%
SAN BERNARDINO COUNTY SUPERIOR COURT	SPO720	G-361080-2	Self Help	$ 35,537.60	$ 28,112.40	$ 17,619.65	62.7%	49.6%
SAN BERNARDINO COUNTY SUPERIOR COURT	SPO659	G-361080-1	Self Help	$ 445,137.60	$ 402,293.78	$ 4,099.46	1.0%	0.9%
SAN DIEGO COUNTY SUPERIOR COURT	SPO662	G-371080-1	Self Help	$ 332,631.00	$ 202,227.00	$ 157,670.65	78.0%	47.4%
SAN MATEO COUNTY SUPERIOR COURT	SPO674	G-411080-2	Self Help	$ 336,000.00	$ 336,000.00	$ 44,403.07	13.2%	13.2%
SANTA BARBARA COUNTY SUPERIOR COURT	SPO680	G-421080-1	Self Help	$ 312,926.00	$ 281,026.00	$ 24,097.49	8.6%	7.7%
SHASTA COUNTY SUPERIOR COURT	SPO684	G-451080-1	Self Help	$ 458,590.66	$ 255,540.10	$ 41,537.78	16.3%	9.1%
SONOMA COUNTY SUPERIOR COURT	SPO695	G-491080-2	Self Help	$ 56,586.00	$ 56,586.00	$ -	0.0%	0.0%
TUOLUMNE COUNTY SUPERIOR COURT	SPO709	G-551080-1	Self Help	$ 24,000.00	$ 16,200.00	$ 900.00	5.6%	3.8%
VENTURA COUNTY SUPERIOR COURT	SPO713	G-561080-1	Self Help	$ 88,182.00	$ 58,183.00	$ 22,908.94	39.4%	26.0%
VENTURA COUNTY SUPERIOR COURT	SPO714	G-561080-2	Self Help	$ 932,404.00	$ 625,320.00	$ 276,807.17	44.3%	29.7%
YOLO COUNTY SUPERIOR COURT	SPO724	G-571080-1	Self Help	$ 91,500.00	$ 89,000.00	$ -	0.0%	0.0%
			Sub-Total	**$ 7,094,999.79**	**$ 5,030,822.11**	**$ 1,725,037.51**	**34.3%**	**24.3%**
			Total	**$ 22,415,554.08**	**$ 15,703,964.09**	**$ 5,221,021.33**	**33.2%**	**23.3%**

Contingency	$ 1,959,445.92
Budgeted Admin	$ 625,000.00
Total Program	**$ 25,000,000.00**

Source: Grant award information is based on executed grant agreements and subsequent amendments. Disbursements are based on the Judicial Council's documentation of monthly trial court distributions, while court spending is recorded in the Phoenix financial system. The Judicial Council reimburses the 5th DCA upon that court's payment requests, so the amounts disbursed and spent for the 5th DCA will always agree.

JUDICIAL COUNCIL
OF CALIFORNIA
AUDIT SERVICES

Discussion Document
Court Interpreter Audit Findings
Fiscal Year 2017-18

Introduction:

Audit Services reported audit findings pertaining to court interpreters at five of the six courts it reviewed during FY 2017-18. This document summarizes Audit Services' perspectives on the findings so that the Court Executives Advisory Committee (CEAC) can consider whether policy changes—or a clarification of existing policies—are needed.

Summary of the Issues:

Audit Services observed courts paying contract court interpreters at rates, which:

(1) were not established in an executed contract, purchase order, or other documented agreement authorized by the court's management, and prior to the interpreter's commencement of work.

(2) cannot be verified by the court's accounts payable staff to ensure the amount (and pay rate) claimed on the invoice are consistent with the court's previously documented authorization.

(3) exceed the rates established in the Judicial Council's interpreter pay policies, without any documentation to demonstrate the "unusual circumstances" at play or the court's attempts to find an interpreter willing to accept the established rate.

In this environment, Audit Services has two concerns. First, there is the risk that courts may pay interpreters at rates they did not previously authorize. The lack of a documented pay rate prior to the commencement of work prevents the court's accounting staff from performing the 3-point match (or reconciliation) between the interpreter's claim and the court's authorization (issues #1 and #2 above). After-the-fact verbal authorizations by court management—or e-mails authorizing higher pay rates after interpreter services have already been provided—are not an effective control to ensure the court has established clarity upfront with the interpreter over how much will be paid for his or her services. After-the-fact authorizations are also inconsistent with the procurement and vendor payment principles found in the FIN Manual and the JBCM.

Secondly, the lack of documentation over interpreter selection efforts prevents courts from demonstrating they had at least attempted to comply with the Judicial Council's interpreter pay policies, and were unable to find an interpreter at the established rate (issue #3). The Judicial

Discussion Document
Court Interpreter Audit Findings
Fiscal Year 2017-18

Council's policies are in response to the Legislature's annual directive that it establish statewide or regional pay policies for contractual court interpreters. Each year, the Legislature has reaffirmed the requirement that these pay policies exist through provisional language in the budget act, which for fiscal year 2018-19 provided the superior courts with nearly $105 million in spending authority to pay their contractual court interpreters.[1] The Legislature requires the Judicial Council to adopt appropriate rules and procedures for the administration of these funds. Given the Legislature's appropriation and directive to establish statewide pay policies, Audit Services believes it is necessary and prudent for courts to make every reasonable effort to demonstrate their adherence to the Judicial Council's interpreter pay rates.

Audit Services recognizes that some courts believe the Judicial Council's pay policies are outdated and establish pay rates that are too low, which severely limits their ability to find interpreters who are willing to accept that lower level of pay. Existing policy allows courts to exceed the established rates under "unusual circumstances," such as when other interpreters are unavailable and/or the only alternative is to continue the case. If courts believe most interpreters will be unavailable given the Judicial Council's low pay rate—and further believe these "unusual circumstances" are actually commonplace—then it may be more appropriate for courts to seek an increase to the Judicial Council's interpreter pay rate. Revising interpreter pay rules into one that is more realistic may be better than keeping a policy that courts view as unattainable, and where demonstrating compliance is a low priority.

Criteria Considered:

When reporting audit findings on these issues, Audit Services researched and considered three sources of criteria, as noted below:

- ***Trial Court Financial Policies and Procedures Manual (FIN Manual)***
  - FIN 8.01 – Vendor Invoice Processing
  - FIN 8.02 – Claim Processing

- ***The Judicial Branch Contracting Manual (JBCM)***
  - Introduction – Section 5: Content and Exclusions

- ***The Judicial Council's Payment Policies for Contract Court Interpreters***

[1] Budget Act of 2018 (SB 840, Ch. 29, Statutes of 2018), appropriation item # 0250-101-0932(4) and provision #4

- http://www.courts.ca.gov/documents/paypolicies.pdf

FIN 8.01 focuses on how courts should pay vendors in general, while FIN 8.02 focuses on the unique processes for paying "in-court service providers"—such as court interpreters—by expanding on the earlier FIN 8.01. Regardless, both FIN 8.01 and FIN 8.02 stress the importance of a court's ability to verify the appropriateness of an interpreter's invoice through a document matching process, which compares the amounts billed and the pay rate to the original agreement. FIN 8.01 refers to this as a part of the "3-Point Match Process," and FIN 8.02 refers to this as the "Reconciliation of Claims" process.[2] Regardless, the general principle of matching an interpreter's invoice to the authorizing document is both a mandatory and clear expectation placed on the courts. However, a court's ability to properly match an interpreter's invoice is limited when there is no underlying contract, purchase order, or other written agreement.

The lack of written agreements at the courts appear to stem from certain provisions in the JBCM, which exempt courts from following certain contracting and procurement rules when dealing with court interpreters. Specifically, the JBCM states: (1) contracts between the court and court interpreters are exempt from the Judicial Branch Contract Law and are thus not addressed in the JBCM[3]; and (2) that the JBCM supersedes certain criteria found in the FIN Manual that address the court's contract administration, procurement and contracting practices.[4] As a result, courts have explained to Audit Services that the JBCM either does not apply or does not require contracts with interpreters, effectively arguing that the JBCM's silence on interpreter contracts supersedes any additional guidance that may be found in the FIN Manual.

Audit Services respectfully disagrees with this interpretation. Aside from written agreements being a prudent business practice to ensure clarity with vendors over the costs of service and other important terms, such agreements are also necessary for the document/invoice matching process discussed earlier. Further, the JBCM explicitly states that despite its various exemptions for court interpreters, the invoice processing procedures cited in the FIN Manual—and by extension the required document matching processes—remain applicable at each court.[5] According to the JBCM, "….invoice processing and expense reimbursement [as stated in the FIN Manual] are not superseded by [the JBCM]. JBEs [Judicial Branch Entities] will continue to

[2] Trial Court Financial Policies & Procedures Manual (FIN Manual); FIN 8.01, Sec. 6.3.2(2)(a); and FIN 8.02, Sec. 6.8
[3] Judicial Branch Contracting Manual (JBCM), see Introduction, Sec. 5, pages 5-6
[4] JBCM, see Introduction, Sec. 6, page 7
[5] *Ibid*

be responsible for maintaining fiscal and operational accountability….including those [rules] set out in the [FIN Manual]."

Attached to this discussion document are examples of court interpreter findings at the same court, which further highlight the issues raised in this discussion document. The three attached findings are referenced as follows:

- #2017-15-01 (Lack of written contract or agreement)
- #2017-20-01 (Lack of court authorization and reconciliation of submitted claim)
- #2017-21-01 (Exceed Established Interpreter Pay Rates)

Recommendations:

CEAC may wish to consider recommending policy changes to the existing court interpreter pay policies, such that the effect of such revisions would be that courts implement the following:

1. To ensure courts have created clarity with interpreters over pay rates, dates of service, and other key terms—and to ensure the required invoice/claim matching process can be followed—Courts should develop and execute short, one-page agreements memorializing the agreements reached with the interpreter before the commencement of work.

2. To ensure courts can demonstrate they had first attempted to adhere to the Judicial Council's interpreter pay rates, courts might consider documenting the "unusual circumstances" that caused them to exceed the established rate. For example, such documentation might include keeping records of the interpreters contacted and their unwillingness to accept the Judicial Council's established rate.

PROCUREMENT AND CONTRACTS

The Court Should Ensure Written Contracts are In Place for All Contracted Services

Background

Trial courts are expected to procure goods and services in a manner that promotes competition and ensures best value. To achieve this expectation, the Judicial Branch Contracting Manual (JBCM) and the Trial Court Financial Policies and Procedures Manual provide uniform guidelines for trial courts to use in procuring necessary goods and services and in documenting their procurement practices. Trial courts must demonstrate that their procurement of goods and services are conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice. Typically, a purchase requisition is used to initiate all procurement actions and to document approval of the procurement by an authorized individual. The requestor identifies the goods or services, verifies that budgeted funds are available for the purchase, completes the requisition form, and forwards it to the court manager authorized to approve purchase requests. The court manager is responsible for verifying the necessity and appropriateness of the requested items, that the correct account codes are specified, and assuring that funds are available before approving and forwarding the requisition form to the staff responsible for procuring goods and services. Depending on the type, cost, and frequency of the goods or services to be procured, court staff responsible for procuring goods and services may need to perform varying degrees of procurement research to generate an appropriate level of competition and obtain the best value. Court procurement staff may need to also prepare and enter the agreed terms and conditions into purchase orders, service agreements, or contracts to document the terms and conditions of the procurement transaction, and maintain a procurement file that fully documents the procurement transaction.

The Court demonstrated compliance in various areas we evaluated during our audit, including demonstrating sound management practices in the areas of initiating procurements, authorization and authority levels, and in soliciting competitive and non-competitive procurements.

Nevertheless, we identified one audit finding that we believe requires the Court's corrective action. The finding pertained to the following specific area of procurements:

Finding Reference	Subject
2017-15-01	Procurement – Contract Terms

FINDING REFERENCE: 2017-15-01
PROCUREMENT – CONTRACT TERMS

CRITERIA
FIN MANUAL, FIN 7.01, 3.0 POLICY STATEMENT:

The trial court must execute a written contract when entering into agreements for services or complex procurements of goods. It is the responsibility of every court employee authorized to

commit trial court resources to apply contract principles and procedures that protect the interests of the court.

FIN MANUAL, FIN 8.01, 6.3.2 DOCUMENT MATCHING:

1. At the scheduled time and depending on the court's invoice payment cycle, an accounts payable employee will match the vendor invoices to all appropriate supporting documentation. The court will adopt the "three-point-match" procedure to process vendor invoices.
2. A "three-point-match" procedure consists of matching a vendor invoice to a purchase agreement and to proof of receipt and acceptance of goods or services. For example,
    a. All details of the invoice, including description of goods and services ordered, quantities involved, unit prices billed and other applicable charges must be matched to the details and terms and conditions of the court's purchase agreements or contracts.
    b. All invoice details, including description of goods or services ordered and quantities invoiced must be matched to the details of packing slips, shipping orders, receiving reports or other forms of acknowledgement of delivery of products or completion of work by an authorized court employee.

FIN MANUAL, FIN 8.01, 6.3.3 REVIEW FOR ACCURACY OF INVOICE:

1. To ensure that payments are made according to contract specifications, terms of applicable contracts or purchase agreements shall be compared to the invoice for accuracy.

CONDITION

The FIN Manual requires courts to execute written contracts when entering into agreements for services; however, for three of the 25 procurement transactions reviewed (and for one of the accounts payable transactions we reviewed) the Court did not have contracts in place. Specifically, our review noted the Court had paid:

- $3,000 per month to a vendor for janitorial services even though the contract had expired.
- More than $15,000 to a probate investigator without a contract that spells out the scope of work, term of the agreement, and the agreed-upon compensation rate.
- More than $36,000 to one court interpreter—and more than $12,500 to another—each without an agreement that documented the Court's prior authorization of the agreed-upon travel time, mileage, and payment rate.

According to court staff, they were unaware as to why contracts or court authorizations were not in place prior to these vendors' commencement of work. Nevertheless, the Court indicates that it is currently competitively procuring new investigative and janitorial services and expects these two contracts to be in place before the end of fiscal year 2017-18. With regards to contract court interpreters, the Court stated that it did not enter into contracts because contract court interpreters are excluded from the JBCM's requirements and the JBCM supersedes the FIN Manual procurement and contract sections.

The Court is correct in that the JBCM does not address court interpreters; however—as noted in our audit finding—the FIN Manual does. Audit Services recognizes the potential for confusion arising from procurement and contracting requirements existing in both the FIN Manual and the JBCM. Nevertheless, courts still need written purchase agreements or contracts to comply with the document matching procedures required by the FIN Manual prior to the issuance of payment. In addition, Audit Services believes it is a sound and reasonable business practice for courts to clearly document the details of the agreed-upon terms and conditions prior to the vendor's commencement of work. Absent such a written agreement—which could be as short as a one-page form—the Court may have little to no basis to resolve subsequent disputes over the services provided, the interpreters' billing rates, or the amounts paid.

RECOMMENDATION

To ensure its interests are fully protected, the Court should execute written contracts when securing services, including the services of in-court service providers, such as contact court interpreters. These contracts could be short one-page contracts that, at a minimum, identify the scope of services, the term of the agreement, and the agreed upon compensation. Contracts for in-court services may also define the Court's process for assigning work and issuing court authorizations, contractor responsibilities for preparing and submitting claims, and payment processing procedures.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees with these assessments. At the time of this response, bids for both janitorial services and probate investigator services were released and completed. An award has been issued for probate investigator services. The Court is reissuing the bid for janitorial services due to lack of response, an award and subsequent contract will be executed upon completion of the bid. The Court will implement short form interpreter contracts for interpreters by 6/1/2018.

Response provided on [redacted] **by:** [redacted], Court Executive Officer
Date of Corrective Action: Fully corrected by [redacted]
Responsible Person(s): [redacted], [redacted]

PAYMENT PROCESSING

The Court Could Better Demonstrate that Payments to In-Court Service Providers are Properly Authorized and Supported, and Travel Expense Claim Reimbursements are Complete and Approved by Appropriate Levels

Background

Trial courts must institute procedures and internal controls to ensure they pay for appropriate goods and services in an economical and responsible manner, ensuring that they receive acceptable goods and services prior to payment. Thus, the FIN Manual provides courts with various policies on payment processing and provides uniform guidelines for processing vendor invoices and in-court service provider claims. All invoices and claims received from trial court vendors, suppliers, consultants and other contractors are routed to the trial court accounts payable department for processing. The accounts payable staff must process the invoices in a timely fashion and in accordance with the terms and conditions of the respective agreements. Staff must match all invoices to the proper supporting procurement and receipt documentation, and must ensure approval for payment is authorized by court management acting within the scope of their authority.

In addition, trial court judges and employees may be required to travel as a part of their official duties, and may occasionally conduct official court business during a meal period. Courts may reimburse their judges and employees for their reasonable and necessary travel expenses, within certain maximum limits, incurred while traveling on court business. Courts may also reimburse their judges and employees, or pay vendors, for the actual cost of providing business-related meals when certain rules and limits are met.

The Court demonstrated compliance many of the payment processing areas we evaluated during our audit. The Court demonstrated sound management practices in the areas of its three-point match process, payment approval, and allowable costs.

Nevertheless, we identified four audit findings in the payment processing area that we believe requires the Court's corrective action. These findings pertained to the following specific areas of payment processing:

Finding Reference	Subject
2017-20-01	Special Rules, In-Court Service Providers
2017-21-01	Special Rules – Court Interpreters
2017-24-01	Travel Expense Claims – Completeness
2017-24-02	Travel Expense Claims – Approvals

FINDING REFERENCE: 2017-20-01
SPECIAL RULES, IN-COURT SERVICE PROVIDERS

CRITERIA

FIN MANUAL, FIN 8.02, 6.1 CLAIMS PAYMENT PROCESS, 6.1.1 INTRODUCTION:

1. The trial court regularly uses the services of a variety of skilled professionals in conducting its operations. The services of court appointed counsel, investigators, psychiatrists, court reporters, interpreters, mediators, arbitrators, and others are needed on an ongoing basis. These service providers submit claims for payment to the trial court that must be processed through accounts payable.
2. The basis for a claim is created when the court authorizes services to be provided by an individual or business. The claims payment process assures that proper documentation accompanies each claim and that approval for payment is obtained from authorized staff. At the end of the process, three main functions of accounts payable are completed: 1) supporting documents are reviewed and approved, 2) warrants are issued, and 3) accounting entries are recorded.

FIN MANUAL, FIN 8.02, 6.8 RECONCILIATION OF CLAIMS:

After Accounts Payable has received and recorded a claim, it must be reconciled to the court authorization for the services provided and the service provider's invoice. The claim should be reviewed against the court authorization to verify the appointment, rates, and any hour or dollar limits that may apply. The invoice should be reviewed against the court authorization for the rates and hours charged, and other costs incurred. The correctness of unit price extensions and totals should also be reviewed. Previous claims for the same matter should also be reviewed to assure that limits are not exceeded.

FIN MANUAL, FIN 8.01, 6.3.3 REVIEW FOR ACCURACY OF INVOICE:

3. To ensure that payments are made according to contract specifications, terms of applicable contracts or purchase agreements shall be compared to the invoice for accuracy.

CONDITION

The Court did not have written court authorizations that detail the appointment, payment rates, and any hour or dollar limits for three of the six in-court service provider claims reviewed. These court authorizations are like work orders issued from a master contract before the services are provided and that identify the specific work assignment and that may provide for any increases in contract or standard rates or costs that are justified due to unusual circumstances. Specifically, all three in-court services claims did not have written contracts and two were for contract court interpreter services that also did not have written court authorizations, while the third claim for investigative services had a court authorization but did not specify the payment rate or any hour or cost limits. According to the Court, it does not have written court authorizations for the interpreter claims because it believed the Judicial Council interpreter claim forms that document the services provided and rate paid were sufficient. However, these claim forms are prepared by interpreters to request payment after they provide services, they are not the same as the court authorizations that preauthorize the services and payment rates or costs before services begin. After our review, the Court instituted a pre-service-approval process for interpreter services that exceed the standard Judicial Council interpreter payment rates.

Nonetheless, without complete written court authorizations for in-court services, the Court cannot perform the FIN Manual required document matching and claim reconciliation procedures before processing claims for payment. Specifically, without written court authorizations, court accounts payable staff cannot match the in-court service provider claims to their corresponding court authorizations. Therefore, they cannot also properly reconcile and verify the pre-authorized appointment, rates, and hours, as well as court pre-authorization of payment rates that exceed standard rates or any other extraordinary costs claimed by in-court service providers before processing their claims for payment. As a result, the Court risks paying for unauthorized in-court services and overpaying for services when the amounts claimed exceed any undocumented negotiated rates, costs, or limits.

RECOMMENDATION

To ensure court accounts payable staff have the documents they need to consistently verify the accuracy of in-court service provider claims prior to payment, the Court should consider implementing and consistently using a process such as the following:

- The Court could issue one-page court authorizations to in-court service providers for specific work assignments, detailing the agreed upon appointment, payment rates, and any hour or dollar limits prior to these in-court services contractors providing services to the Court.
- The Court could then forward copies of these court authorizations to its in-court services coordinators and accounts payable staff for their files and later reference.
- When in-court service providers complete assignments and submit claims for payment, in-court services coordinators could verify the claims, acknowledge receipt and acceptance of the services provided, and forward the claim and acknowledgement to court accounts payable staff.
- Court accounts payable staff could then retrieve from their files the court authorizations associated with the claims and use them to complete the required document matching and claim reconciliation procedures before processing the claims for payment.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees that its current process for independent contractor interpreters is in need of updating. As a result, the Court is in the process of implementing a short form agreement for all interpreters to be executed prior to services being provided. Additionally, the Court will forward these completed agreements to the Court Fiscal Services Analyst so that claims can be verified against agreement terms and also verified by the Court Operations Manager in their capacity as interpreter coordinator (to confirm services claimed were indeed performed). This will help ensure validity and verification of interpreter claims.

Response provided on [redacted] **by:** [redacted], Court Executive Officer
Date of Corrective Action: [redacted]
Responsible Person(s): [redacted]

FINDING REFERENCE: 2017-21-01
SPECIAL RULES – COURT INTERPRETERS

CRITERIA
FIN MANUAL, FIN 8.02, 6.6 COSTS:

Before incurring any unusual expense that exceeds a limit set by the court, service providers must obtain the court's authorization by submitting a written request. The request shall be supported by written justification setting forth the need for the cost and an itemized estimate of the proposed expenditure.

FIN MANUAL, FIN 8.02, 6.7 COSTS EXCEEDING NORMAL RATES:

1. In some instances, costs higher than the limits set by the trial court may be justified. Before incurring costs that exceed court-designated limits, service providers must obtain the court's authorization by submitting a written request. The request must be supported by written justification for the higher cost and an itemized estimate of the proposed expenditure. A copy of the court authorization approving the higher costs must be submitted with the claim for reimbursement.
2. In no event shall costs exceeding trial court limits be incurred without the prior written approval of the court.

JUDICIAL COUNCIL OF CALIFORNIA, PAYMENT POLICIES FOR CONTRACT COURT INTERPRETERS, PAYMENT POLICIES:

Mileage reimbursement
Actual mileage is reimbursed when the interpreter travels 60 miles or more roundtrip from his or her place of business (address used for tax purpose). The rate of reimbursement is the rate as authorized by the state. Extraordinary travel costs such as airfare may be reimbursed only with advanced approval of the court executive officer, or his or her designee.

Unusual circumstances
An amount above the daily rate, and/or a cancellation fee may be provided under unusual circumstances. Unusual circumstances are defined as follows:

- There are limited or no available interpreters in the needed language; and
- The alternative is to continue the proceeding.

A trial court and the interpreter may negotiate an amount for travel time in unusual circumstances.

CONDITION
For the two contract court interpreter claims reviewed, the Court paid interpreters above the Judicial Council's established rates without documenting (1) the unusual circumstances for doing so; and (2) the Court's pre-approval of the rate to be paid. Specifically, the Court paid one certified Spanish language interpreter the Judicial Council's full-day rate of $282 for certified interpreters for one hour of interpreting services, or $125 more than the Judicial Council's established half-day rate of $157. The Court paid the other certified Spanish language interpreter $300 for a full day of interpreting services, or $18 more than the Judicial Council's full-day rate

of $282. In addition, the Court paid both interpreters a total of $157 for travel time. The Court paid these amounts without any explanation of the unusual circumstances that prompted it to pay the higher rates or for travel time, which the Judicial Council policy requires for both interpreter payments higher than the Judicial Council established rates and travel time payments. The Court also paid one of these interpreters $25 for roundtrip mileage of less than 60 miles, even though the Judicial Council payment policies provide reimbursement for mileage when travel is 60 miles or more roundtrip.

According to the Court, it did not keep a record of the unusual circumstances or agreed-upon higher payment rates because it had no other option than to pay the higher rates in order to obtain the interpreter services when they were needed. Audit Services agrees with the Court that there will be times when it must pay above the Judicial Council's established rates; however, documenting the unusual circumstances and its pre-approval of the higher rates helps to mitigate the risk that the Court may otherwise routinely or inappropriately pay above the Judicial Council's established rates. Further, documenting the unusual circumstances—such as its unsuccessful attempts to obtain interpreters at the established rate—positions the Court to demonstrate that it is attempting to follow Judicial Council policy when possible.

To its credit, the Court has now instituted a pre-service approval process for when interpreters will exceed the Judicial Council's established payment rates. According to the Court, such a process now consists of an email exchange between the operations manager and the CEO detailing the need for interpreter services, the rates, and some information regarding the circumstances, and will include a request for approval by the CEO. Once approved, the operations manager will inform the interpreter that the Court has approved them to provide the services in question. Although the Court indicated that it is still tweaking this process to make it simultaneously efficient and address the concerns raised by the audit, the process it has placed into use should allow it to document the agreed-upon rate prior to the interpreter commencing work.

RECOMMENDATION

To ensure its accounts payable staff pay contract court interpreter rates and costs that exceed the rates set by the Judicial Council and the Court only when pre-authorized and approved, the Court should do the following:

- Consistently document the unusual circumstances and pre-authorization for contract court interpreter services that cost more than the Judicial Council's standard rates and/or include costs for travel time.
- Document and approve in advance, any estimated extraordinary travel costs and limits it agrees to pay the contract court interpreter.
- Consider documenting these unusual circumstance explanations, higher rate authorizations, and extraordinary cost approvals in its recently established pre-service-approval process by using a one-page court authorization document that is issued to the contract interpreter and shared with accounts payable staff for use in executing their payment processing procedures.

COURT'S VIEW AND CORRECTIVE ACTION PLAN
The Court agrees that its current process for independent contractor interpreters is in need of updating. As a result, the Court is in the process of implementing a short form agreement for all interpreters to be executed prior to services being provided. The Court has already instituted an internal protocol for negotiating and approving rates that exceed the Judicial Council set rates. The Court has also implemented a practice of reviewing all available interpreters to ensure that the Court is paying the most competitive rates for interpreters when there is a need, thus creating a record that substantiates variances from the Judicial Council rates when required.

Response provided on [redacted] **by:** [redacted], Court Executive Officer
Date of Corrective Action: [redacted]
Responsible Person(s): [redacted]

FINDING REFERENCE: 2017-24-01
TRAVEL EXPENSE CLAIMS - COMPLETENESS

CRITERIA
FIN MANUAL, FIN 8.03, 6.4.1 SUBMITTAL OF TRAVEL EXPENSE CLAIMS (TEC):

1. Judges and employees who incur reimbursable business travel costs must submit a completed TEC form

FIN MANUAL, FIN 8.03, 6.4.2 ALLOWABLE EXPENSES:

1. The following types of expenses are allowable and reimbursable for trial court business travel:

    e. Meals. Trial court judges and employees may be reimbursed for meals consumed during business travel. Meals to be reimbursed should be itemized as breakfast, lunch or dinner. The maximum allowable reimbursement for each meal is established by the Judicial Branch Travel Guidelines.

FIN MANUAL, FIN 8.03, 7.0 ASSOCIATED DOCUMENTS, JUDICIAL BRANCH TRAVEL GUIDELINES, MEALS:

Actual costs are reimbursable up to the limits stated below for continuous travel of more than 24 hours.

Breakfast – Up to $8.
Lunch – Up to $12.
Dinner – Up to $20.

Meal reimbursement for one-day trips is taxable and reportable income unless travel included an overnight stay. Lunch may not be claimed on trips of less than 24 hours. For continuous travel of less than 24 hours, actual expenses up to the above limits are reimbursable if:

- Travel begins one hour before normal work hours – Breakfast may be claimed.
- Travel ends one hour after normal work hours – Dinner may be claimed.

Court Data Quality Procedures and Amending JBSIS Reports

Draft Proposal for Consideration by the JBSIS Subcommittee of CEAC

August 10, 2018

Bryan Borys and Liane Herbst, Los Angeles Superior Court

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 address various needed amendments to the JBSIS rules. At the request of the Subcommittee, we write in response to two of Judge Rosenberg's queries: amending inaccurate JBSIS reports, and local efforts at quality assurance.

This note is in the form of guidelines suitable for inclusion in the JBSIS Manual, where they are authorized implicitly by CRC 10.400, which mandates JBSIS compliance. Alternatively, in whole or in part, what follows could be written in form of Rules of Court or Standards of Judicial Administration. We believe that putting them in context, in the JBSIS Manual, is most helpful.

Part 1: Errors and Amendments

> *From the Audit Committee: The Judicial Council's JBSIS Manual (ver. 2.3; December 2009) does not require courts to correct JBSIS data, and does not define when a court's data would be sufficiently flawed so as to require an amended report. Appendix D of the manual is permissive and generally states that courts "may amend data if they find the original file submission was not accurate." However, with courts reporting tens of thousands of cases a year (or more), it is unlikely that any court will always report every case type accurately. Having a branch-wide standard on data accuracy could assist courts in determining when their JBSIS reporting must be corrected versus when the errors uncovered are either tolerable and/or de minimis.*

There is a presumption that JBSIS filings data[1] will be accurate, particularly since annual appropriations are based in part upon them. While the work of the Audit Committee in auditing JBSIS submissions is a significant source of information about the accuracy of JBSIS data, it is not the only one. Courts have broader obligations to assess data quality and remedy errors, as described below.

[1] Unless other indicated, the word *JBSIS* refers not only to data reporting made through automated JBSIS reporting, but also reporting made through the JBSIS Portal.

Error discovery

Known errors that result from any one of the following must be addressed as described in this section:

1. Documented errors in the audit report;
2. The results of the annual data quality review by the Office of Court Research;
3. Findings and results of local QA efforts as described further in the section below;
4. Ad hoc error discovery: Errors that are discovered in the normal course of business by court staff and judicial officers must be appropriately addressed per this section.

Error quantification

The *size* of the error, relative to the size of the filings that it affects, is an important consideration. When an error is encountered, the Court has an obligation to estimate it:

1. The Court should make a good faith estimate of the number of filings that are expected to be in error in a year (whether the error results in over-reported, or under-reporting).
2. The appropriate way to measure the error rate is to consider each source of error separately. It is misleading to calculate the *net* rate (e.g., the net of over- and under-reporting of filings).
3. The appropriate unit of observation is the case type, as defined by the columns of either the JBSIS or Portal data matrices.
4. Thus when an error is found, the error rate should be calculated by: the annual number of expected errors, divided by the annual total filings reported for that case type.
5. If more than one type of error is found in a single case type, the cumulative error rate should be calculated (with both over-reporting and under-reporting counting as positive counts of error).
5. For any single source of error, if the error rate is estimated to be less than 2%,[2] the error is considered tolerable error.
6. For annual JBSIS reporting, no single case type shall contain more than 2% known errors.

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. Intolerable errors should be studied to determine the root cause.

1. Intolerable intermittent user errors should result in a training plan for court staff that addresses the errors.

[2] NB: The Judicial Council's adopted implementation rules for WAFM distinguish between courts that are over-funded and under-funded by 2%. While the present discuss concerns a *subset* of a court's RAS or WAFM need, we take the 2% rule as a reasonable guideline for tolerable error.

2. Any intolerable error with a root cause in written policies, procedures, guidelines, desk manuals, etc., should result in appropriate amendments to those documents.
3. Any intolerable error with a root cause in technology **must** result in a plan to address the error.

Error amendment

Using burdensomeness as a criterion for allowing a court not to amend data provides a perverse incentive for courts to avoid automated reporting. All courts must amend reports containing intolerable errors of more than 2%.[3]

Courts must amend intolerable errors prior to the reporting deadline at which the affected fiscal year's data become part of the dataset to be included in the RAS model (a date determined each year by the Office of Court Research). If the root cause analysis indicates that the source of the error is not unique to the most recent fiscal year, any amendments must be made to all three fiscal years that pertain to the upcoming RAS model calculations.

There is a presumption that data quality improves, rather than degrades, over time. Thus Courts should provide the most recent data. Courts with fully automated JBSIS reporting must re-submit filings data for the previous three fiscal years, each year on a date to be determined by the JCC.[4]

Part 2: Quality Assurance

> *From the Audit Committee: The JBSIS Manual does not provide guidance to the courts on what data quality control practices they must or should follow prior to report submission. As a result, courts likely vary in the degree to which they scrutinize their data prior to reporting to JBSIS. As noted in the enclosed audit finding, the court's staff noted they did not have a process to reconcile the cases they had deleted from the court's CMS with the case counts they had reported to JBSIS previously. Providing courts with a checklist or other mandatory and suggestive data quality control procedures could enhance overall data quality in JBSIS.*

Courts will vary widely in their capacity for quality assurance (QA). Baseline QA is ensured by the error-trapping and -correction requirements outlined in the previous Part. The ideas in this Part are much more along the lines of an initial draft of best practices that should be subject to

[3] We think that this is not a harsh pronouncement, since the obligation has long existed: JBSIS reporting requirements have existed for decades; JBSIS filings data were used for allocation decisions as long ago as 2006; and they became standard in 2013. Fair notice has been given.

[4] This requirement will be suspended in any year in which changes render it infeasible – for instance, in the years in which courts transition from JBISIS Manual version 2.3 to version 3.0.

discussion and change as courts learn more about JBSIS QA. They might best be posted on the JBSIS website by the Office of Court Research.

A note on local statistical practices

Courts may have good reason to create local statistical reports that deviate from the JBSIS definitions. For instance, while civil harassment filings are reported under civil, a court may process them in the family law courts and thus may include those cases in a local family law case management report. Nonetheless, each court must ensure that the JBSIS definitions are adhered to in JBSIS reporting. Thus we recommend that each Court have staff who are "fluent in JBSIS," even if deviations are sometimes implemented.

For Portal courts

1. Periodically review the data extracts that provide source data for Portal entries to ensure that they comply with the JBSIS Manual.
2. Double-check data entries before submission.

For JBSIS courts

1. Review the JBSIS mapping documentation for their CMS to check for compliance with the JBSIS Manual (this should be done by court staff, not only by the CMS vendor).[5]
2. Periodically compare results in the JBSIS Data Warehouse with ad hoc data extracts directly from the CMS.

For all courts

Systematic review of JBSIS reports is not the only useful form of diligence. Curiosity – and being open to finding and preventing errors – is often the most fruitful QA effort, particularly with newly implemented case management systems and practices.

1. Establish a Data Quality Assurance Plan that recognizes two stages to QA:
    a. CMS entries must reflect the actual state of the case (e.g., cases that have been disposed have the appropriate disposition entry);
    b. Data reports, especially the JBSIS report, must reflect CMS entries.
2. Adopt a posture of find-and-prevent: Establish a practice that when court staff or judicial officers notice data problems in the normal course of business:
    a. There is a central place to report them to, so that patterns can more easily be discovered; and

[5] The Working Group should consider whether it is desirable and feasible for courts to exchange JBSIS mapping documentation.

    b. Management is made aware of the problems so they can adjust training, documents, and other management tools to prevent the problems from reoccurring.
3. Ensure that written procedures, guidelines, FAQs and other appropriate documents reflect JBSIS rules – and that, whenever local deviations are used, written documentation makes those deviations clear and understandable.
4. Train court staff on the JBSIS rules so that the language of JBSIS becomes widely used. This practice helps to reduce data entry errors (for instance, so that a data-entry clerk understands the implications of docketing a document as a new filing).
5. Use the JBSIS report results to double-check other statistical reports used by the Court.
6. Establish routine production and review of *exception reports* that identify common indicators of potential errors, such as the following:
    a. Cases with no future hearing date;
    b. Cases that have a disposing event concluded (e.g., a judgment), but which appear as pending;
    c. Cases with no activity within the past X months;
    d. Tests of whether a case has the right type of entry, given other data in the case (e.g., reports that check whether each Decedent's Estate case really is of that type);
    e. Routine comparison of periodic statistical reports against the previous version, to discover possible errors.

Perhaps Courts should share their exception reports on the JBSIS website.

The Judicial Council's use of RAS and WAFM has radically transformed the significance of JBSIS reporting. Accurate reporting is a fundamental, core obligation of each Court. Mandatory audits of JBSIS submissions are a crucial first step toward fulfilling that obligation. It is important for CEAC to take the lead in cultivating widespread quality assurance procedures, and the attitudes and practices that support them.

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 08/23/2018

Action Item #1 – (Action Requested)

Discussion and Approval of the Annual Audit Plan

Actions requested:

Direct Audit Services' to suspend auditing court compliance with the Judicial Council's interpreter pay rules, pending potential revision of existing policy.

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

Summary:

Suspend Audit Review of Court Compliance with the Judicial Council's Interpreter Payment Policies

Ms. Sherri Carter contacted Audit Services on August 7th, requesting that the audit committee consider a motion to temporarily suspend audit activity involving payments to court interpreters. Ms. Carter notes that CEAC is considering whether to recommend changes to the Judicial Council's court interpreter pay policies. As noted in the committee staff's report discussed earlier (see info item #1, Attachment C), Audit Services had prepared a discussion document—at CEAC's request—so that CEAC may consider prior audit findings when evaluating potential policy revisions.

The audit committee sets the scope of the audits of the courts, and may temporarily suspend audit review of this requirement until a later date. If the audit committee decides to suspend audit activity of court interpreter payments, committee staff recommend that a date be set to reconsider the status of any policy revisions, and whether to re-authorize audit work in this area.

Approval of the FY 18-19 Annual Audit Plan

The audit committee last discussed the proposed audit plan for fiscal year 2018-19 during its meeting on June 19, 2018. At that meeting, committee members requested staff to make various changes to the audit plan, most notably:

- Include another DCA from southern California to the audit plan (thus having two DCAs on the schedule).

- Create a process whereby a new CEO could request an abbreviated review by Audit Services, so as to become aware of potential problems when he or she assumes administrative control of a court ("New CEO Reviews" are discussed in a later meeting agenda item, see agenda item #2).

Audit Services has added the 4th DCA to the audit schedule (which will now include both the 4th and 5th DCAs). However, in order to accommodate the additional audit in the schedule (as well as to be positioned to respond to "New CEO Reviews" that cannot be anticipated) Audit Services proposes to reduce the scope of its standard audits, as noted on pages 8-10 of the revised annual audit plan (Attachment A). Doing so is expected to increase the likelihood of absorbing the additional workload while increasing the number of audits to be issued during the year.

***Regarding the Proposed Audit Schedule & Audit Services' Reviews of the Appellate Court*s**

Audit Services prepared the audit plan with the assumption that the appellate courts will create their own version of a financial policies manual, similar to the Trial Court Financial Policies & Procedures Manual (FIN Manual) for the superior courts. The FIN Manual is a significant source of audit criteria used in our court reviews. The appellate court clerks began discussing the creation of their own appellate financial policies manual last year, but current progress is uncertain. In the event that the appellate courts do not establish a financial policies manual, appellate court audit activity will likely be limited to reviewing compliance with the Judicial Branch Contracting Manual, and will likely take less time than is currently indicated on the audit schedule.

Regarding Planned Audit Activity by External Auditors

The California State Auditor's Office has selected five superior courts for its biennial audit of court procurement practices. These audits are required under state law per the Public Contract Code, Section 19210(b). The five superior courts selected for review include:

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

These audits will likely begin in the fall since the State Auditor is required to submit its final audit report to the Legislature by January 15th, 2019.

For fiscal year 2018-19, the Department of Child Support Services (DCSS) is transitioning away from performing additional audits of the superior courts under the AB 1058 program, as its auditors will be reviewing contracts with other state agencies that receive Title IV-D funds. DCSS still anticipates issuing the final audit reports for the following courts (where work was completed during the previous fiscal year):

- Colusa
- Fresno
- Glenn
- Plumas
- Tehama
- Santa Cruz
- Monterey
- San Luis Obispo

For fiscal year 2019-20, DCSS auditors will re-evaluate the need to audit additional superior courts under the AB 1058 program (based on risk and the input of senior DCSS management).

Supporting Documents:

- Attachment A: Draft Annual Audit Plan for Fiscal Year 2018-19

JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2018 - 2019

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JUDICIAL COUNCIL
OF CALIFORNIA

AUDIT SERVICES

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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- 68104]

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 financial 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 provides for 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 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.

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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 Scope Adjustments for FY 18-19

During preliminary discussions with the audit committee in June 2019, committee members expressed their desire for Audit Services to add another appellate court to the audit schedule. In addition, members asked Audit Services to create a new service where courts could request a "New CEO Review," where a quick, high-level review could provide an incoming CEO with information on different areas where his or her new court might be at risk. In order to accommodate the additional audit requested by the committee, and to lessen the impact on the audit schedule by performing ad-hoc "New CEO Reviews" that cannot be anticipated in advance, Audit Services proposes to reduce the standard scope of its court audits as reflected in Table 2 below. When selecting scope areas to eliminate, Audit Services considered the cost of testing in comparison to the nature of the audit findings and issues reported in the prior year. In general, a court's cash handling activities and JBSIS reporting are high-risk areas where Audit Services commits most of its time during any single audit. These scope areas will remain for FY 18-19, but the audit plan proposes to eliminate four testing areas noted below (e.g. purchase cards, travel expense claims; business meals; and petty cash).

Table 2 – Audit Scope Adjustments for FY 18-19

	Areas and Sub-Areas Subject to Review	Standard Scope Item for FY 18-19	Reportable Audit Findings	
			# of Findings In Prior Year	Rationale for Not Testing
Cash Handling				
1	Daily Opening Process	Yes		
2	Voided Transactions	Yes	2	
3	Handwritten Receipts	Yes	3	
4	Mail Payments	Yes	12	
5	Internet Payments	Yes		
6	Change Fund	Yes	3	
7	End-Of-Day Balancing and Closeout	Yes	1	
8	Bank Deposits	Yes	3	
9	Other Internal Controls	Yes		

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Procurement and Contracts

10	Procurement Initiation	Yes	3	
11	Authorization & Authority Levels	Yes		
12	Competitive Procurements	Yes	2	
13	Non-Competitive Procurements	Yes	1	
14	Leveraged Purchase Agreements	Yes		
15	Contract Terms	Yes	4	
16	Purchase Cards	No	3	Courts are ultimately able to set their own purchase card limits beyond what's specified in the Judicial Branch Contracting Manual as the default limit. Three courts lacked their own limits, but did not dramatically exceed the default $1,500 per transaction limit.
17	Other Internal Controls	Yes	2	

Payment Processing

18	3-Point Match Process	Yes		
19	Payment Approval & Authority Levels	Yes	1	
20	Special Rules - In-Court Service Providers	Yes	5	
21	Special Rules - Court Interpreters	Yes	3	
22	Other Items of Expense	Yes		
23	Jury Expenses	Yes		
24	Travel Expense Claims	No	10	These findings often occurred because travel expense claims (TECs) were not completed properly, omitting key information such as: the purpose of travel; start/end times; and departure/destination locations. These omissions appeared to be caused by staff oversight. Nevertheless, we did not find evidence of inappropriate lodging rates or excessively high travel costs.
25	Business-Related Meals	No	4	Two courts had difficulty demonstrating the per person meal costs were within the limits set by Judicial Council. One court did not keep track of how many attended an event, while the other court exceeded the per-person limit by roughly $4.
26	Petty Cash	No	1	One court used its petty cash fund for expenditures that are not the intended purpose of the fund. The petty cash fund is used to pay for low-dollar office supplies and services, not for business-related meals or cakes for its Drug Court program. Issue was isolated to one court.
27	Allowable Costs	Yes	1	
28	Other Internal Controls	Yes		

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Fine & Fee Distribution				
29	CMS-Calculated Distributions	Yes	1	
30	Manually-Calculated Distributions	Yes		
1% Fund Balance Cap				
31	Calculation of the 1% Cap	Yes	1	
32	Use of "Held on Behalf" Funds	Yes		
JBSIS Case Filing Data				
33	Validity of JBSIS Data	Yes	7	
Grant Award Compliance				
34	AB 1058 Program	No	2	Given DCSS's audits of the program, there is now heightened awareness of the grant's timekeeping rules. Further, CFCC is considering changing the timekeeping requirements for future grants. Testing in the area should be reconsidered for inclusion in next year's audit plan.

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Audit Scheduling and Available Staff 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 and the related scope areas noted in Table 2. 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*). Based on the audit schedule shown in Table 3, 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, which does not include the roughly 1,800 hours the Internal Review Team has reserved for auditing court compliance under the *Courts Innovations Grant Program*.

The schedule also provides insight on which 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 December 2018.

Table 3 – Available Staff Resources and Audit Schedule (Fiscal Year 2018-19)

	2018-19												
	July	August	September	October	November	December	January	February	March	April	May	June	Total
Monthly Working Days	**22**	**23**	**20**	**23**	**22**	**21**	**23**	**20**	**21**	**22**	**23**	**20**	**260**
Available Monthly 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)**
Estimated Personal Leave	(40)		(16)		(16)	(80)	(40)					(40)	**(232)**
Available Hours Per Auditor	***128***	***184***	***136***	***176***	***136***	***80***	***128***	***144***	***160***	***176***	***176***	***120***	***1,744***
Administrative Time	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	**(30.0)**
Training	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	**(42.0)**
Travel (Two Round Trips / Month)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	**(384.0)**
Non-Audit Hours	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(38.0)***	***(456.0)***
Available Audit Hours Per Auditor	***90***	***146***	***98***	***138***	***98***	***42***	***90***	***106***	***122***	***138***	***138***	***82***	***1,288***
# of Audit Staff	9	9	10	10	10	10	10	10	10	10	10	10	**10**
Total Available Audit Hours	***810***	***1,314***	***980***	***1,380***	***980***	***420***	***900***	***1,060***	***1,220***	***1,380***	***1,380***	***820***	***12,644***
Court Team #1	270	438	343	483	343	147	315	371	427	483	483	287	**4,390**
Court Team #2	270	438	343	483	343	147	315	371	427	483	483	287	**4,390**
Internal Review Team	270	438	294	414	294	126	270	318	366	414	414	246	**3,864**

	2018-19											
	July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services												
Court Team #1	**Siskiyou**			**Glenn**					**San Francisco**			
	Ventura					**4th DCA**					**Trinity**	
Court Team #2	**Sacramento**					**San Benito**						
			5th DCA						**Modoc**			
Internal Review Team	**Internal Reviews**			**Court Innovations Grants**			**Court Innovations Grants**			**Internal Reviews**		
State Controller's Office	**Pilot Audits - Trial Court Financial Compliance** - GC 77206(h) [6 courts]			**Judicial Council Financial Compliance Audit** - GC 77206(i)								
	Trial Court Fine & Fee Revenue Distribution Audits - GC 68103											
State Auditor's Office	**Trial Court Procurement Audit** - PCC 19210(a) [Imperial, Los Angeles, Monterey, Santa Barbara, Santa Clara]									**Judicial Council Procurement Audit** - PCC 19210(c)		
		CAFR - Statewide Financial Statement Audit of FY17-18 (all State Agencies)										
Department of Child Support Services	**Issue Remaining Audits of AB 1058 Program** (Completed in prior year)											

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 audit committee may also reprioritize audits and modify the audit schedule as it deems necessary.

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 4 shows all 58 superior courts, listed by the time elapsing since its previous audit. Elapsed time 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.

Table 4 – 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		Y	26. Mono	3/1/2012		
4th DCA	N/A	X		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

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 08/23/2018

Action Item #2 – (Action Requested)

Discussion and Approval of the "New CEO Review" Process

Actions requested:

Approve the proposed "New CEO Review" protocols

Summary:

Audit Services has created various self-assessment checklists—by subject area—that are now posted on the Judicial Resources Network. These checklists cite the criteria most commonly used during an audit, and contain explanatory flowcharts depicting key control points often observed during court audits. An example of a self-assessment checklist is included in the materials (Attachment A). Checklists currently available on the Judicial Resources Network address the following topics:

- Business-Related Meals
- Cash Handling
- Payment Processing
- Petty Cash
- Procurement
- Purchase Cards
- Travel Expense Claims

Committee staff recommend that the "New CEO Review" process be largely based on courts completing these checklists as a prerequisite to the committee authorizing the review. By having a court complete those checklists in advance—and by having the court cross reference its own local policies and procedures to the FIN Manual and other key criteria—the court would be able to conclude on its own where it is most at risk of noncompliance. Upon receiving these checklists, Audit Services would then be able to perform targeted, high-level procedures to verify a court's conclusions, such as through interviews, policy and procedure reviews, and limited testing of selected transactions. The time needed for Audit Services to perform these reviews, once approved by the committee, are anticipated to be roughly one-half to one-third the time of a normal audit.

The proposed protocols for requesting and performing the *New CEO Review* are listed below for discussion purposes. However, some questions the committee might consider when discussing the protocols include:

- How will these protocols—once finalized—be communicated to the superior courts?

- Does the committee need a "protocols" or "committee rules" page on its web site, describing how a court can request a New CEO review?

    - <u>Side questions beyond the New CEO Process</u>: Should the "committee's rules" page include protocols for courts to submit other kinds of requests to the committee, such as:
        - getting on the audit schedule,
        - having input on audit scope or the annual audit plan,
        - the committee's approval to audit a single high-risk issue that may affect multiple courts or is branch-wide in scope.

- Should it only be new CEO's or can any CEO request the review? How "new" does the New CEO have to be? (e.g. is 12 months on the job too short of a time)?

- Do members agree that this is a consultative review for the court—outside of the normal audit process—and the results don't need to come through the committee or be published?

- Are there other areas, not included on the current checklists, which should be incorporated into the New CEO Review Process (other potential scope areas)? What are other high-risk areas for a new CEO?

Proposed New CEO Review Process

Committee staff recommend that the New CEO Review process entail the following steps:

1. ***The new CEO has his or her staff complete all of the self-assessment checklists*** as provided on the Judicial Resources Network. Alternatively, the court can complete only those checklists that are within the areas the new CEO wants reviewed. A new CEO is defined as one where he or she has been the executive officer at the court for a year or less. Completion of the checklist includes court staff describing—for each compliance requirement—how it ensures compliance and includes providing cross-references to local court policies and procedures, if any.

2. ***Upon completion of the relevant checklists, the new CEO will submit his or her request for a "New CEO Review" to the audit committee*** via e-mail (along with copies of the completed checklists). The CEO may also notify committee staff or the committee's chair directly via e-mail with the completed checklists.

3. ***The audit committee will consider approving the request at the next audit committee meeting as an agenda item***. Committee staff will evaluate the completeness of the checklists and the potential scope and time commitment for the proposed review. Committee staff will also provide an updated audit schedule—showing the impact should the committee authorize the proposed review.

4. ***The audit committee will vote whether to approve***: (1) the new CEO review; and (2) the revised audit schedule that allows time for the review. Depending on the scope of the review, the committee may need to delay audits of certain courts that were previously approved on the audit schedule.

5. ***Once approved, Audit Services will perform limited procedures to evaluate the court's assertions on the checklist*** and may perform limited testing to evaluate whether key compliance requirements are being followed in actual practice. The review will not be considered as an audit, but instead will be a consultative review outside of the normal audit process.

6. ***The final written product will be an advisory letter to the new CEO outlining potential risks at the court***. Audit Services will issue the letter directly to the new CEO outside of the typical audit process. Completed reviews will not be listed as an agenda item for the audit committee's review and will not be published.

<u>Supporting Documents</u>:

- Attachment A: Example Self-Assessment Checklist (Purchase Cards)

JUDICIAL COUNCIL OF CALIFORNIA
AUDIT SERVICES

Guidance / Instructions

Self-Assessment Checklists

Background: The Judicial Council's Office of Audit Services (Audit Services) created this checklist in order to provide the superior courts with a tool they could use to periodically evaluate their compliance with key requirements issued by the Judicial Council. Audit Services has provided citations to the applicable criteria, which often come from the *Trial Court Financial Policies and Procedures Manual* (FIN Manual) or the *Judicial Branch Contracting Manual* (JBCM). Other sources of criteria, such as budgetary memos or state law are also noted on the checklist, when appropriate. Audit Services frequently uses these criteria during its audits of the superior courts. Following the checklist, superior courts will find additional background information that include flowcharts depicting key controls and practices often observed at the courts. The flowcharts are informational and are intended to further assist superior courts with comparing their unique processes against those Audit Services expects to encounter during its audits of the courts.

Instructions: When using the checklist, Audit Services encourages court staff to complete the narrative portion (Column D) and reference any local court policies or procedures (Column E) that at a high level explains how the court ensures or demonstrates compliance. Court managers can self-assess whether their court is in compliance (Column F) and note any corrective action plans / responsible parties (Columns G and H).

Courts are not required to complete these checklists prior to an audit by Audit Services; however, doing so and providing the results can expedite the audit process and increase the chances of your court having fewer or no audit findings.

Terminology:

Compliance Requirement

Audit Services' narrative description or summary of the Judicial Council's mandatory requirement (or suggested guidance) in a given policy area.

Citation

The reference to where court staff can read the requirement / guidance in more detail from the original source. For example, FIN 10.02; 6.3.1(1) references the first paragraph of section 6.3.1 within FIN Policy No. 10.02.

Description of How Court Complies

The Court's layperson explanation for how it complies with the Judicial Council's mandatory requirement or suggestive guidance. The level of detail provided is up to the court, but should be sufficiently clear to allow an experienced court administrator who is unfamiliar with your court's unique practices to understand your chosen approach.

In some cases, the Judicial Council's policies mandate or suggest that the court implement certain key internal controls. Internal controls are affected by people and are activities that put policy into action. *Internal controls are activities designed to detect and/or prevent significant risks that - if unchecked - could prevent the court from achieving its business objectives*. Examples of significant risks might include the loss of financial resources through theft, or allowing significant misstatements on the court's reporting of its financial or operational performance. A control activity in response to a risk might include (as required or recommended by Judicial Council policy) the segregation of duties for certain key functions, periodic monitoring or review / approval of transactions by court management, or the periodic rotating of staff assignments in high risk areas.

Court Policy Reference

Reference to the Court's relevant and corresponding local policies and procedures, if applicable.

Court's Conclusion on Compliance

The Court's own assessment of whether it is in compliance with the referenced Judicial Council policy based on its own evaluation of local court practices. ("C" for compliance or "NC" for non-compliance)

Planned Corrective Action (if necessary)

If the Court believes it is out of compliance, the checklist can be used to list what steps need to be taken and to assign responsibility to a particular court employee for implementing corrective action (Column H).

JUDICIAL COUNCIL OF CALIFORNIA
AUDIT SERVICES

Self-Assessment Checklist - Purchase Cards

(Matrix of Compliance Requirements)

Trial Court Financial Policies and Procedures Manual | Judicial Branch Contracting Manual

Checklist Revision date: August 2018

A	B	C	D	E	F	G	H
Item	**Compliance Requirement**	**Citation**	**Court's Description / Narrative Of How It Complies.**	**Court Policy Reference**	**Court's Conclusion on Compliance?** ***(Compliance (C) / Non-Compliance (NC))***	**Planned Corrective Action (if necessary)**	**Responsible Court Employee**
Purchase Cards							
	Does the procurement process begin with the requestor completing and submitting a written or electronic purchase requisition to the individual authorized to approve purchase requisitions?	JBCM, Ch. 2, Sec. 2.1(C); FIN Manual 6.01, Sec. 6.1(1)					
	Does the individual responsible for reviewing and approving purchase requisitions ***ensure the need for the requested goods/services and that sufficient funds are available*** ? (This process is separate from approving the subsequent contract/PO)	JBCM, Ch. 2, Sec. 2.1(C); FIN Manual 6.01, Sec. 6.1(1)					
	Does the individual responsible for approving purchase requisitions do so within his or her authority level as established by the court's local contracting manual / procedures?	JBCM Ch. 2, Sec. 2.1(C)					
	Does the court ***require*** an approved purchase requisition prior to authorizing the use of a purchase card to procure goods?	JBCM, Ch. 9, Sec. 9.2(A)					
	Does the court ***prohibit*** the use of purchase cards to circumvent JBCM or local procurement procedures?	JBCM, Ch. 9, Sec. 9.2(A)					
	Does the court ***prohibit*** the use of purchase cards for personal use?	JBCM, Ch. 9, Sec. 9.2(A)					
	Does the court ***prohibit*** the use of purchase cards for procuring services?	JBCM, Ch. 9, Sec. 9.2(B)(2)					
	Does the court ***limit*** the direct payment of travel expenses to those purchase cards used only to pay for travel expenses or for travel that is centrally purchased using a court travel account?	JBCM, Ch. 9, Sec. 9.2(B)(7)					
	Does the Local Contracting Manual provide for a $1,500 ***per-transaction maximum limit*** , or a court-established alternative limit, for purchase card purchases?	JBCM, Ch. 9, Sec. 9.2(B)(3)					

JUDICIAL COUNCIL OF CALIFORNIA
AUDIT SERVICES

Self-Assessment Checklist - Purchase Cards

(Matrix of Compliance Requirements)

Trial Court Financial Policies and Procedures Manual | Judicial Branch Contracting Manual

Checklist Revision date: August 2018

A	B	C	D	E	F	G	H
Item	**Compliance Requirement**	**Citation**	**Court's Description / Narrative Of How It Complies.**	**Court Policy Reference**	**Court's Conclusion on Compliance?** ***(Compliance (C) / Non-Compliance (NC))***	**Planned Corrective Action (if necessary)**	**Responsible Court Employee**
	Does the Local Contracting Manual provide for a $5,000 ***daily maximum limit***, or a court-established alternative limit, for purchase card purchases?	JBCM, Ch. 9, Sec. 9.2(B)(3)					
	Does the court ***require*** purchase card users to submit copies of approved purchase requisitions (pre-authorizing the purchase) and itemized receipts (after-the-fact documentation) to the accounting department for review and verification of the monthly purchase card statement?	JBCM, Ch.9, Sec. 9.2(B)(4)					
	Does the court have a process to monitor and identify the inappropriate use of purchase cards, such as for personal use or to circumvent JBCM procurement processes (e.g. used to split purchases and bypass competitive procurement requirements?)	JBCM, Ch. 9, Sec. 9.2(A)					

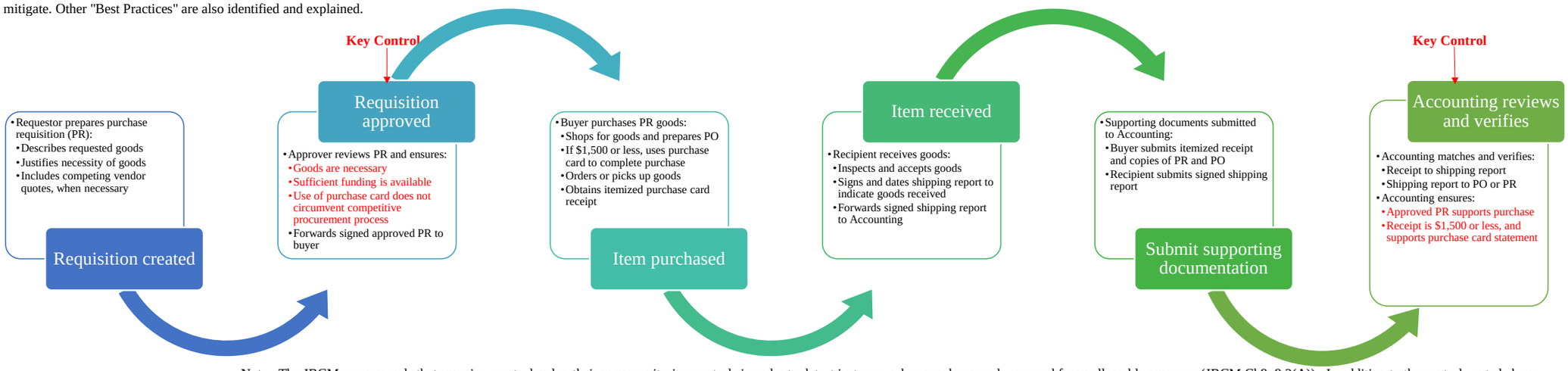
JUDICIAL COUNCIL OF CALIFORNIA
AUDIT SERVICES

Background - Purchase Cards

Background/Purpose:	Purchase cards are a method of payment that work similar to personal credit cards. They offer streamlining advantages over traditional procurement methods because courts may use them to purchase a variety of goods quickly, from online vendors, or with time-sensitive discounts. However, courts face additional risks when using purchase cards, some of which are outlined in the *Potential Risks & Key Controls* section below. Courts may mitigate these risks by implementing effective controls over purchase cards, such as those outlined in the JBCM. The self-assessment checklist located at Tab 2 is to assist courts in assessing whether they have implemented the required or suggested procedures designed to minimize risks and ensure adherence to the guidelines set by the JBCM.
Business Process:	Courts generally follow their standard procurement process when using purchase cards. For example, the requester prepares a purchase requisition for the needed goods and submits the requisition for approval. An authorized individual reviews the necessity and funding for the requested goods and approves the purchase requisition. The buyer researches the availability of the goods requested on the approved purchase requisition and, if appropriate, obtains multiple quotes to ensure a competitive price. The buyer prepares a purchase order, and if the goods cost $1,500 or less, may request to use the court purchase card to expedite the purchase, to pay online for the goods, or to take advantage of a time-sensitive discount. The buyer forwards the itemized purchase card receipt and copies of the approved purchase requisition and any purchase order document to accounts payable staff. The recipient will inspect the goods, sign and date the shipping report, and submit the signed shipping report to accounts payable staff as proof of receiving and accepting the goods. Accounts payable matches and verifies the itemized receipt to the signed shipping report, then to the approved purchase order and/or approved purchase requisition. Accounts payable ensures the itemized receipt supports the monthly purchase card statement, and if purchase card transactions exceed $1,500, notifies appropriate court management that corrective action is needed. For more information on the purchasing process, refer to the graphic below, consult the JBCM, and review the Purchase Cards Checklist located at Tab 2.
Potential Risks & Key Controls:	Courts risk that staff may use purchase cards inappropriately, such as to purchase unallowable or unauthorized goods or services, or to circumvent competitive purchasing processes. Courts also risk that staff may use purchase cards for personal purchases. The purchase requisition approval process, the $1,500 purchase card transaction limit, and the accounts payable review and verification process all serve as key controls that help minimize losses and ensure that the appropriate purchasing process is followed and that the purchase is for court-related goods.
Applicable Criteria:	The JBCM indicates that courts should establish internal controls to monitor their use of purchase cards and notes that purchase cards may not be used to circumvent established procurement procedures. Furthermore, the JBCM limits use of purchase cards only for official court business, limits purchase card transactions to a maximum of $1,500 per transaction, and suggests a daily purchase card limit of $5,000. The JBCM recommends courts document alternative purchase card procedures and limits, incorporate them into their local court contracting manuals, and distribute them to court personnel.

Purchase Card Process & Key Controls:

The flowchart below depicts Audit Services' general observations and the key controls often associated with the process noted. "Key Controls" are identified on the flowchart, along with a description in red explaining the risk that the key control is attempting to address and / or mitigate. Other "Best Practices" are also identified and explained.



Note: The JBCM recommends that superior courts develop their own monitoring controls in order to detect instances when purchase cards are used for unallowable purposes (JBCM Ch9, 9.2(A)). In addition to the controls noted above, court management could consider implementing practical monitoring controls designed to detect court employees who use purchase cards inappropriately. For example, a court could decide to review a sample of purchase card transactions on a monthly or quarterly basis to evaluate whether transactional or daily limits were exceeded, or whether the purchases were for personal use. The court could also focus on reviewing transactions with vendors that do not normally provide the court with office supplies or other goods. The court's evaluation of its risk with its purchase card activities (and its available resources) should inform how frequently its unique monitoring controls are used.

JUDICIAL COUNCIL
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ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 08/23/2018

Action Item #3 – (Action Required)

External Audit Report – State Controller's Office

Requested Action:

- **Action Item** - 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).

Summary:

Government Code, Section 77206(h) requires the State Controller's Office (SCO) to engage in a pilot audit program (involving six courts) to review each court's revenues, expenditures and fund balance. The audit findings and costs associated with the pilot audit program will be used to inform the Legislature of the potential costs associated with the SCO auditing roughly 14-15 courts per year on a recurring basis. The Judicial Council entered into an agreement with the SCO in September 2017 to facilitate the pilot audit program, which includes the following six courts:

- Yolo – (issued May 2018)
- ***Sacramento*** – (***discussed today***)
- Amador – (in progress)
- San Mateo – (in progress)
- Sonoma – (in progress)
- Tehama – (in progress)

Overall, the SCO concluded that Sacramento Superior Court "complied with the governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures and fund balances." However, the SCO auditors noted two audit findings— summarized below—and the Court generally agreed with the auditor's observations.

Finding #1 (Cash Handling) – Auditors observed the following internal control deficiencies regarding the Court's cash handling process:

- Supervisors do not always ensure their cashiers adequately safeguard cash. Auditors observed instances where court staff did not keep their cash drawers secured (i.e. staff left the keys unsecured on their desks or in keyholes while not at their station).

- Auditors observed that the Court's unprocessed mail is not secured. Unprocessed mail payments were left in a mail cart, and no reconciliation occurs between the payments received and the amounts actually processed.

- Auditors observed that safe combinations are not periodically changed, and that the safes were not secured and remained open throughout the day.

- Auditors observed that the barriers between the cashiers and the public are insufficient so as to prevent or deter the public from tampering or stealing the funds.

Finding #2 (Unclaimed Trust) – Auditors observed that the Court did not take steps to reclassify nearly $6.3 million in unclaimed trust that was older than three years (and which could have become the property of the Court and/or the county). The Government Code allows courts to reclassify old and unclaimed trust amounts as property of the court if reasonable attempts to find the rightful owners have been exhausted. Specifically, Government Code 68084.1(b) provides for certain public noticing requirements that must take place prior to these funds becoming court property. The Court has kept these funds in its unclaimed trust account, and the SCO is recommending that the Court develop policies that would enable prompt public notice so that these funds can be reclassified sooner.

Supporting Documents:

- ***Attachment A***—California State Controller's audit of Sacramento Superior Court for fiscal year 2016-17 (review of revenues, expenditures, and fund balance per Government Code, Section 77206(h)) ***[Action item 1]***

SUPERIOR COURT OF SACRAMENTO COUNTY

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2016, through June 30, 2017

BETTY T. YEE

California State Controller

August 2018

BETTY T. YEE
California State Controller

August 14, 2018

Lloyd Connelly, Court Executive Officer
Superior Court of Sacramento County
720 9th Street
Sacramento, CA 95814

Dear Mr. Connelly:

The State Controller's Office audited the Superior Court of Sacramento County's (court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control. The audit period was July 1, 2016, through June 30, 2017.

Our audit found no instances of non-compliance. However, we found weaknesses in the court's administrative and internal accounting control system; these weaknesses are described in the Findings and Recommendations section of our report.

The court agreed with our findings, and provided a detailed Corrective Action Plan addressing the fiscal control weaknesses and recommendations. We appreciate the court's willingness to implement corrective actions.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ls

cc: Rick Beard, Court Financial Officer
Superior Court of Sacramento County
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer and Director of Finance
Judicial Council of California
Grant Parks, Principal Manager
Audit Services
Judicial Council of California
Daniel Alvarez, Secretary of the Senate
Office of the Secretary of State
E. Dotson Wilson, Chief Clerk
California State Assembly, Office of the Chief Clerk
Amy Leach, Journal Clerk
California State Assembly, Office of the Chief Clerk
Diane F. Boyer-Vine, Legislative Counsel
Office of Legislative Counsel
Mark Tollefson, Assistant Program Budget Manager
California Department of Finance

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Attachment—Court's Response to Audit Findings

Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of Sacramento County's (court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control. The audit period was July 1, 2016, through June 30, 2017.

The court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances. However, we found the following weaknesses in the court's administrative and internal accounting control system:

- Inadequate internal controls over the cash-handling process; and
- Failure to follow up on unclaimed trust accounts.

Background

The court operates from five court locations in Sacramento County, California. The court employs 59 judges and approximately 581 court staff members to fulfill its operational and administrative activities. The court incurred more than $92 million in expenditures for the period of July 1, 2016, through June 30, 2017.

The court controls the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund. The General Fund and the Non-Grant Special Revenue Fund had revenues and expenditures in excess of 4% of total revenues and expenditures; these two funds are therefore considered material and significant.

Per the Judicial Council's *Trial Court Financial Policies and Procedures Manual*, trial courts are subject to rules and policies established by the Judicial Council of California to promote efficiency and uniformity within a system of trial court management. However, each trial court has the authority and responsibility for managing its own operations. All employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority that may be established by the trial court for their positions. California Rules of Court (CRC) and the *Trial Court Financial Policies and Procedures Manual* established under Government Code (GC) sections 77000 through 77013 and adopted under CRC 10.804, specify guidelines and requirements for court governance.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including proper segregation of duties and an effective system of internal review.

We performed the audit at the request of the Judicial Council of California. The authority is provided by Interagency Agreement No. 1034558, dated September 5, 2017, between the SCO and the Judicial Council of California.

Objective, Scope, and Methodology

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

The audit period was July 1, 2016, through June 30, 2017.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with authorizing GC sections 77000 through 77013 requiring that they be properly supported by documentation and recorded accurately in the accounting records;
- Expenditures were properly authorized, adequately supported, accurately recorded in the accounting records, and incurred pursuant to authorizing GC sections 77000 through 77013 requiring consistency with the fund's purpose; and
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

To accomplish our objective, we:

General Procedures

- Reviewed the court's Governance Policies, the Budget Act, the Manual of State Funds, GC sections 13400 through 13407 and 77000 through 77013, CRC, the *Trial Court Financial Policies and Procedures Manual*, and relevant internal policies and procedures to identify compliance requirements applicable to trial court for revenues, expenditures, and fund balances.

Internal Controls

- Reviewed current policies and procedures, organization charts, and the court's website, and interviewed court staff to gain an understanding of the internal control environment;
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions;
- Evaluated the court's formal written internal policies and procedures;
- Completed internal control questionnaires by interviewing key staff, and observed the business operations for the purpose of evaluating cash-handling and internal accounting controls; and
- Reviewed the court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.

We performed the following tests of transactions to ensure adherence with prescribed procedures and to validate and test the effectiveness of controls:

Revenue Substantive Testing

- Tested revenue transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund by selecting non-statistical samples (see the table below) to determine whether revenues were consistent with authorizing Government Code sections, properly supported by documentation, and recorded accurately in the accounting records;
- Tested individual revenue accounts that exceeded $500,000, totaling $49,713,736 out of $93,086,257, or 53.4% of the total revenues (see the table below for percentages of revenue accounts sampled); and
- Judgmentally sampled a minimum of 10%, or 10 total line items, of the selected revenue accounts, consisting of large-dollar-amount transactions within each account sampled, and traced to supporting documentation.

We did not identify any errors in the samples.

The following table identifies total revenues by account and related amounts tested:

Revenue Accounts	Total Revenues	Percentage Total	Amount Tested	Percentage Tested
State Financing Sources				
Trial Court Trust Fund	$ 75,278,963	80.9%	$ 42,171,607	56.0%
Judges' Compensation	561,073	0.6%	49,083	8.7%
Court Interpreter	3,505,539	3.8%	679,256	19.4%
MOU Reimbursements	1,174,100	1.3%	176,896	15.1%
Other Miscellaneous	3,560,592	3.8%	3,560,592	100.0%
	84,080,267		46,637,434	
Grants				
AB 1058 Commissioner/Facilitator	1,698,283	1.8%	501,214	29.5%
	1,698,283		501,214	
Other Financing Sources				
Local Fees	3,070,696	3.3%	1,511,912	49.2%
Enhanced Collections	1,502,817	1.6%	516,879	34.4%
County Program-Restricted	924,609	1.0%	265,302	28.7%
Reimbursement Other	966,348	1.0%	280,995	29.1%
	6,464,470		2,575,088	
Other Accounts[1]	843,237	0.9%	-	
	843,237		-	
Total Revenues	$ 93,086,257	100.0%	$ 49,713,736	53.4%

[1] Other Accounts were not selected for testing.

Expenditure Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections consistent with the fund's purpose, properly authorized, adequately supported, and accurately recorded in the accounting records; and

- Tested individual expenditure accounts that exceeded $500,000, totaling $2,750,093 of $13,450,865, or 20.4% of total expenditures (see the table below for percentages of expenditure accounts sampled).

We did not identify any errors in the sample.

The following table identifies total expenditures by account and related amounts tested:

Expenditure Accounts	Total Expenditures	Percentage Total	Amount Tested	Percentage Tested
Personnel Services[1]				
Salaries – Permanent Employees	$ 48,695,105	52.4%		
Staff Benefits	29,572,511	31.8%		
	78,267,616			
Operating Expenditures and Equipment				
General Expense	2,679,604	2.9%	$ 227,634	8.5%
Telecommunications	629,691	0.7%	293,296	46.6%
Facility Operations	1,705,129	1.8%	593,660	34.8%
Contracted Services	4,868,125	5.2%	627,711	12.9%
Consulting and Professional Services	628,691	0.7%	189,594	30.2%
Information Technology	1,486,297	1.6%	450,987	30.3%
Major Equipment	635,763	0.7%	359,700	56.6%
	12,633,300		2,742,582	
Special Items of Expenditure				
Jury Costs	817,565	0.9%	7,511	0.9%
	817,565		7,511	
Total Expenditures Selected for Testing[2]	13,450,865		$ 2,750,093	20.4%
Other Accounts[3]	1,190,942	1.3%		
	1,190,942			
Total Expenditures	$ 92,909,423	100.0%		

[1] Personnel Services were tested using a different methodology.
[2] Amount excludes Personnel Services and Other Accounts not selected for testing.
[3] Other Accounts were not selected for testing.

- For Salaries – Permanent Employees, we selected 10 employees out of 581 from a list provided by the court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation to ensure that:
  - Employee time included supervisory approval;
  - Overtime was authorized;
  - Regular earnings were supported by the Salary Resolution; and
  - Regular earnings tied back to the general ledger;

- For Staff Benefits, we selected the same 10 employees out of 581 from a list provided by the court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation and the general ledger; and

- For Operating Expenditures and Equipment, and Special Items of Expenditure, we judgmentally sampled a minimum of 10%, or 10 total line items, of the selected expenditure accounts consisting of large dollar amounts, and traced the amounts to supporting documentation.

Fund Balance Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see the table below for transaction summary by fund);

- Verified the accuracy of individual fund balances in the court's financial supporting documentation; and

- Recalculated sampled funds to ensure that fund balances as of June 30, 2017, were accurate and in compliance with applicable criteria.

We did not identify any errors in the sample.

The following table identifies changes in fund balances:

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	$ 5,654,694	$ 1,492,751	$ -	$ 7,147,445
Revenues	87,037,574	3,944,310	2,104,374	93,086,258
Expenditures	(88,141,166)	(2,537,871)	(2,230,385)	(92,909,422)
Transfers In	1,029,725	-	126,011	1,155,736
Transfers Out	-	(1,155,736)	-	(1,155,736)
Ending Balance	$ 5,580,827	$ 1,743,454	$ -	$ 7,324,281
Percent Change	(1.3%)	16.8%	0.0%	

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

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

Conclusion

Our audit found that the court complied with statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances for the period of July 1, 2016, through June 30, 2017. However, we found the following weaknesses in the administrative and internal accounting control system, which are described in the Findings and Recommendations section of this report:

- Inadequate internal controls over the cash-handling process; and
- Failure to follow up on unclaimed trust accounts.

Follow-up on Prior Audit Findings

This is the first audit performed at the court pursuant to GC section 77206(h); however, the court was audited by the Judicial Council of California's Internal Audit Services in May 2010. That audit identified inadequate controls over the court's cash-handling process, which is an ongoing issue in the current engagement (see Finding 1).

Views of Responsible Officials

We provided the court with a preliminary final audit report on August 7, 2018. Rick Beard, Chief Financial Officer, responded by letter dated August 10, 2018 (Attachment), agreeing with the audit results. This final audit report includes the court's response.

Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 14, 2018

Findings and Recommendations

FINDING 1—Inadequate internal controls over the cash-handling process

During our review of the court's internal controls, we found that it does not have adequate internal controls over the cash-handling process. The court did not follow its cashiering policies and procedures. Cash collection is one of the major components of reported revenues; therefore, inadequate cash controls could affect the accuracy of reported revenues.

We identified deficiencies in the following areas:

- Court supervisors do not always ensure that cashiers are adequately safeguarding cash. We observed at two cash collection points where staff members did not keep their drawer keys secured with them at all times. There were several instances in which staff members left keys unsecured on their desks or in keyholes while not at their stations, or when leaving the room altogether.
- Unprocessed mail is not secured when same-day processing does not occur. We observed that mail not processed during the day was left unsecured in a filing cart. In addition, management does not provide counter workers the mail payment totals to be processed. Therefore, no verification and reconciliation occurs between the amount that is received and the amount processed.
- During our review of the cashier overages and shortages report, it was brought to our attention that on June 19, 2017, there was a $480 discrepancy in the amount reported and the amount verified.
- During our cash control interview and observation at the court locations, we found the following:
  - Safe combinations were not changed periodically; and
  - Safes were not secured, and remained open throughout the day.
- We observed that cashiers carry money bags from upstairs to the safe downstairs with no security. The route that the cashiers travel is in plain view of the public and, thus, the potential exists for the money bags to be tampered with or stolen.
- We observed that the barriers between the cashiers and the public are insufficient. Due to the insufficient barriers, the cashier's drawers could be tampered with or stolen from by the public.

GC section 13401(a) (5) states, "Systems of internal control are necessarily dynamic and must be routinely monitored, continuously evaluated, and, where necessary, improved." The development and implementation of internal control procedures will improve the integrity of financial reporting and help court staff more effectively comply with governing statutes and procedures.

Recommendation

We recommend that the court follow its cashiering policies and procedures to strengthen its controls over the cash-handing process to ensure the proper reporting of revenues in the financial statements and the safeguarding of cash assets.

Court Response

The court agrees that there is a continual need to review and constantly strengthen cash handling processes. The court is confident that its cash handling is adequately controlled and there is a high level of accuracy in reported revenues. The following are short notes on each bullet point in this SCO audit finding:

- Court staff are periodically reminded to maintain their drawer keys and not leave them unattended at any time. We acknowledge that during busy times, staff may quickly leave their area with their key in their drawer. In addition, the court has a very visible presence of Sheriff's personnel throughout the building, including at the entrance areas. The court audit and/or finance management will provide periodic reminders to management with responsibility over these cash handling areas on the importance of [ensuring that] staff safeguard cash.
- Unprocessed mail is maintained in a secured room that is locked by the Supervisor at the end of each day. The mail is in a mail cart, unopened.
- A one-time occurrence at days end resulted in the need to reconcile an amount the next morning. All documents concerning the amount in question were securely locked in a desk drawer and processed first thing the next morning. Management will put in a place an acceptable/auditable secure option for any such occurrences in the future.
- The court has recently changed the safe combinations at all court locations except one, which will be changed later in August 2018 after an incumbent employee leaves. In addition, the court has developed listings of all staff with access to each safe and a procedure to maintain these listings along with schedules that dictate when safe combinations will be changed in the future.
- In the Traffic courthouse, staff must move cash bags from the first to second floor via the building's central staircase. There is no alternative and, as a deterrent, entrance security staff are located within twenty feet of the bottom of the staircase.
- In order for a cash drawer to be tampered with, a customer would have to reach over three feet across the counter, open the drawer in plain sight of several other staff, remove any drawer contents, then exit the room and make their way past entrance security staff. Currently, neither funding nor the ability exists to provide barriers to remove this possible action. At the downtown courthouse, such modifications would require ADA compliant remodeling which increases the cost to well over a million dollars based on estimates from the mid 2000's. In addition the downtown courthouse is now scheduled to be replaced as early as 2023. The new building will be designed to eliminate this potential problem.

> The court will continue to stress the importance of following the cash handling processes in place to ensure the security of the revenues collected at each courthouse. The court's Audit Unit will continue to provide spot checks and other reviews periodically for [ensuring] compliance.

FINDING 2—Failure to follow up on unclaimed trust accounts

During our review of the aging of the court's trust accounts, we found that the court did not reclassify $6,248,472 of unclaimed trust accounts older than three years. GC section 68084.1(a) and (b) states that owners of trust accounts older than three years should be notified and if the money is not claimed, it becomes the property of the court.

Our audit found that the following accounts did not comply with statutory requirements:

Trust Account	Amount Older than June 30, 2014
Civil Trust	$ 5,262,571
Criminal Law Trust	258,439
Family Law Trust	272,258
Probate Trust	14,248
Small Claims Trust	319,230
South Sacramento Municipal Court Trust	8,614
Traffic Trust	92,850
Unlawful Detainer Trust	20,262
Total	$ 6,248,472

The court has not taken any action or published any notices to return these funds to lawful owners. The error occurred because the court does not have the necessary staff resources to maintain up-to-date notices for the trust accounts.

GC section 68084.1(a) states:

> A superior court holding in trust for the lawful owner, in a court bank account or in a court trust account in a county treasury, that remains unclaimed for three years, shall become the property of the superior court if, after published notice, the money is not claimed or no verified complaint is filed and served. Money representing restitution collected on behalf of victims that remains unclaimed for three years shall be deposited either into the State Restitution Fund or into the general fund of a county that administers a victim services program exclusively for the provision of victim services.

GC section 68084.1(b) states:

> At any time after the expiration of the three-year, the executive officer of the superior court may cause a notice to be published once a week for two successive weeks in a newspaper of general circulation published in the county in which the court is located. The notice shall state the amount of money, the fund in which it is held, and that it is proposed that the money will become the property of the court on a designated date not less than 45 days nor more than 60 days after the first publication of the notice.

Recommendation

We recommend that the court establish and implement procedures to maintain up-to-date notices for all trust accounts.

Court Response

The court agrees that this area requires attention. The court had made strides to work down some of this backlog in 2007. Unfortunately the court has not had the availability of staff [in accounting or operations] to maintain the various components of the trust account processes as set forth in the cited government code sections. The court's Accounting Office in 2007 specifically added an Accountant position to handle this task. Unfortunately the incumbent left the position within one year and the economic downturn at the time did not allow the position to be refilled, along with several other vacated positions in the unit. The position has remained unfilled to date. The process to research and determine the actual status of the trust deposits is time consuming and requires much assistance from operational staff. The court is currently in the process of developing and implementing three new case management systems which require[s] a large amount of staff time, both operational and accounting staff. This further limits the available time and key personnel necessary to tackle the trust backlog.

The court has recently laid out an internal process to address the trust account issue by working foreclosure case trust accounts. Accounting staff, following the completion of year-end work, will begin to work the criminal trust backlog, then small claims, with the other areas to be prioritized. This added workload will be blended into the existing workload for staff. Court accounting staff will work with the affected operational areas to develop an efficient process to ensure these cases are reviewed and follow the guidelines established in the cited government codes. Lastly, the court is currently evaluating alternatives based on conversations with other courts to handle this backlog either by adding a dedicated staff position or by utilizing outside contractor assistance.

Attachment—
Court's Response to Audit Findings

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SACRAMENTO

ADMINISTRATION DIVISION
RICK BEARD
CHIEF FINANCIAL OFFICER

720 NINTH STREET
SACRAMENTO, CALIFORNIA 95814
(916) 874-7133

August 10, 2018

Ms. Lisa Kurokawa, Chief
Compliance Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250

Ms. Kurokawa:

This correspondence provides the Sacramento Superior Court's responses to the two audit findings from the Audit Report of the Superior Court of Sacramento County on the Validity of Recorded Revenues, Expenditures, and Fund Balances covering the period July 1, 2016, through June 30, 2017. We understand that these court responses will be incorporated into the final report for this audit.

Should you have further questions or require additional information, please contact me at (916) 874-8133.

Sincerely,

Rick Beard
Chief Financial Officer

Cc: Mr. Lloyd Connelly, Court CEO
Mr. Jim Lombard, Deputy Court CEO

Attachment

August 2018 SCO Audit Report of the Superior Court of Sacramento on the Validity of Recorded Revenues, Expenditures, and Fund Balances for the period July 1, 2016 through June 30, 2017

FINDING 1 – Inadequate internal controls over the cash-handling process
SCO Recommendation: that the court follow its cashiering policies and procedures to strengthen its controls over the cash handling process to ensure the proper reporting of revenues in the financial statements and the safeguarding of cash assets.

Court Response – The court agrees that there is a continual need to review and constantly strengthen cash handling processes. The court is confident that its cash handling is adequately controlled and there is a high level of accuracy in reported revenues. The following are short notes on each bullet point in this SCO audit finding:

- Court staff are periodically reminded to maintain their drawer keys and not leave them unattended at any time. We acknowledge that during busy times, staff may quickly leave their area with their key in their drawer. In addition, the court has a very visible presence of Sheriff's personnel throughout the building, including at the entrance areas. The court audit and/or finance management will provide periodic reminders to management with responsibility over these cash handling areas on the importance of instilling staff safeguard cash.
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The court will continue to stress the importance of following the cash handling processes in place to ensure the security of the revenues collected at each courthouse. The court's Audit Unit will continue to provide spot checks and other reviews periodically for ensure compliance.

FINDING 2 - Failure to follow up on unclaimed trust accounts
SCO Recommendation: that the court establish and implement procedures to maintain up-to-date notices for all trust accounts.

Court Response – The court agrees that this area requires attention. The court had made strides to work down some of this backlog in 2007. Unfortunately the court has not had the availability of staff, neither in accounting nor operations, to maintain the various components of the trust account processes as set forth in the cited government code sections. The court's Accounting Office in 2007 specifically added an Accountant position to handle this task. Unfortunately the incumbent left the position within one year and the economic downturn at the time did not allow the position to be refilled, along with several other vacated positions in the unit. The position has remained unfilled to date. The process to research and determine the actual status of the trust deposits is time consuming and requires much assistance from operational staff. The court is currently in the process of developing and implementing three new case management systems which require a large amount of staff time, both operational and accounting staff. This further limits the available time and key personnel necessary to tackle the trust backlog.

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

http://www.sco.ca.gov