JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

www.courts.ca.gov/auditcommittee.htm
auditcommittee@jud.ca.gov

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

MINUTES OF OPEN MEETING WITH CLOSED SESSION

October 3, 2018
12:15 pm – 1:15 pm
Conference Call

Advisory Body Members Present:	Hon. David Rosenberg, Hon. Peter Siggins, Hon. Susan Matcham, Hon. Mary Ann O'Malley, Mr. Kevin Harrigan, Ms. Tania Ugrin-Capobianco, Ms. Sherri Carter, Mr. Kevin Lane
Advisory Body Members Absent:	Mr. Phil Jelicich (non-voting advisory member)
Others Present:	Mr. Grant Parks, Ms. Renee Crane (CEO – Siskiyou Superior Court), Ms. Lorena Barnes (Siskiyou Superior Court)

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 August 23, 2018 meeting. Hon. Susan Matcham seconded the motion. There was no further discussion of the minutes. Motion to approve passed by unanimous voice vote of the committee members present.

Hon. David Rosenberg asked if there were any public comments. Mr. Grant Parks informed the audit committee that he had received one public comment for this meeting. The comment was from San Joaquin Superior Court inquiring whether the audit committee sends notifications of public meetings. Mr. Parks informed committee members that the public notice for this meeting was posted on September 24th and committee staff followed the Judicial Council's guidelines for posting the required public notice. The decision of whether to perform additional steps during the *public notice* process is a decision best left to committee members. Mr. Parks confirmed he will respond to the email received from San Joaquin Superior Court. Judge Rosenberg encouraged committee members to provide input on other ways the public should be informed of upcoming meetings, in addition to posting meeting notices on the public website at: www.courts.ca.gov.

DISCUSSION AND ACTION ITEMS

Info Item 1

Report from Audit Services

Mr. Parks informed the audit committee that audit staff are in the process of closing its work at Sacramento and Ventura superior courts, and stated these reports should be available for the committee's review by mid-or-late November. Audit staff have also initiated audits of Glenn superior court and 5th District court of appeal.

Mr. Parks provided an overview of the judicial branch's spending under the Court Innovations Grant (CIG) Program. As of September 30th, the Judicial Council has awarded roughly $22 million to various courts. The courts have collectively spent roughly $5.8 million, which is about 27% of the amount awarded. Eighteen months remain before the funding period for the CIG program ends. In June 2018, Audit Services issued an advisory memo to the courts to remind them of the grant's remaining period of availability. Audit Services is in process of identifying which courts to audit under the CIG program.

Mr. Parks reported that he had spoken with Mr. Jake Chatters (CEO – Placer Superior Court) regarding CEAC's ongoing efforts to develop JBSIS data quality standards (this committee issued a letter to that group encouraging the development of those standards). According to Mr. Chatters, a draft of those standards is currently in development and the goal is for CEAC members to vote and adopt the standards in January 2019.

Finally, Mr. Parks provided an overview of external audit activity. The State Auditor's Office is now conducting mandated procurement compliance audits of five superior courts: Imperial, Los Angeles, Monterey, Santa Barbara and Santa Cruz. Those audit reports should be available for the audit committee by January 2019. Also, the State Controller's Office (SCO) will be auditing the Judicial Council's administration of the revenues, expenditures and fund balances under its control. This is a statutorily required audit, and Mr. Parks expects this audit to begin in November with the report likely coming to the committee's members in Spring 2019.

Info Item 2.

General Discussion by Members of the Committee

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

Action Item 1

External Audit Reports on AB 1058 Program – Department of Child Support Services (Action Required)

Mr. Parks provided a summary of the external AB 1058 court audits by the Department of Child Support Services (DCSS) and some background information on the status of these audits, including DCSS suspending further AB 1058 court audits until revised timekeeping methodologies are developed. Mr. Harrigan (CEO of Tehama superior court) asked if it would be appropriate if he abstain from voting on whether to approve the Tehama audit report for public posting, given his employment with the court.

Similarly, Judge Matcham also decided to abstain from voting on motions pertaining to the audit of Monterey superior court. Judge Rosenberg agreed and stated there would be separate motions for the Tehama and Monterey audits to facilitate and record those abstentions.

Presiding Justice Siggins asked if trial courts have been advised—on a broad basis— of the methodology and new standards for timekeeping. Mr. Parks replied that he had not inquired with the Judicial Council's Center for Families, Children and the Courts (CFCC) on how broad the standards (once developed) will be broadcasted. Mr. Parks explained the current focus is to figure out a methodology that would work for both the superior courts and the Department of Child Support Services (DCSS). Current discussions include the goal of providing the courts with a variety of different options on timekeeping. Presiding Justice Siggins asked if subsequent DCSS audits will be suspended until the courts have revised their timekeeping methodology. Mr. Parks commented that DCSS's auditors would likely wait until the new rules are firmly established and would not otherwise want to audit against standards that are only likely to change.

Action: Judge O'Malley moved to approve Tehama audit report for posting (seconded by Presiding Justice Siggins). The motion passed by unanimous voice vote of the committee members present (Mr. Harrigan abstained).

Action: Presiding Justice Siggins moved to approve the Monterey audit report for posting (seconded by Judge O'Malley). The motion passed by unanimous voice vote of the committee members present (Judge Matcham abstained).

Action: Judge O'Malley moved to approve the audit reports for Colusa, Fresno, Glenn, Plumas and Santa Cruz superior courts for public posting (seconded by Judge Matcham). The motion passed by unanimous voice vote of the committee members present.

Action Item 2

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

The SCO is engaged in a pilot audit program of the superior courts (pursuant to Government Code, Section 77206(h)), where the SCO reviews and audits each court's administration of the revenues, expenditures and fund balance under its control. Previously, this committee has reviewed reports focusing on Yolo and Sacramento superior courts. Today, the committee reviews the SCO's audit report for Amador superior court. Mr. Parks expects final audit reports for San Mateo, Sonoma Tehama should be issued later in October and be available at the audit committee's next meeting. SCO noted some cash handling and procurement issues but concluded overall that Amador superior court had complied with statutory rules and regulations regarding revenues, expenditures, and fund balance.

Judge Rosenberg suggested that Audit Services issue an advisory notifying court executive officers (CEOs) that the SCO is noting recurring cash handling issues in its audit reports. Ms. Ugrin-Capobianco suggested some outreach would help provide small courts with new CEOs and limited staff with acceptable alternatives to adopt. Judge Rosenberg commented recalling that the main criticism being that

two people need to be involved when handling cash, which can be a burden on small courts. Judge O'Malley agreed that cash handling procedures may be onerous for courts, but that they have to find a way to work two people into the process because courts cannot excuse it as this is one of the more susceptible areas for a court to be caught in the very awkward situation of theft. Judge Rosenberg agreed that this comes up again and again and every court has at least two employees that can handle cash. Ms. Carter mentioned her understanding is that courts can use alternative methods, such as the use of video recording cameras over cash handling areas in place of two people to deter theft, and that courts with limited staff may consider those types of alternatives. Mr. Parks acknowledged that Ms. Carter's understanding was correct and agreed to prepare a cash handling audit advisory memo highlighting such approved alternative procedures that can be shared with committee members or issued to CEOs. Judge Rosenberg asked if any committee members wished to review the audit advisory before staff issue the advisory. Ms. Carter stated that Audit Services is uniquely positioned to determine which alternative procedures would be acceptable for an audit and to include in an advisory. Judge Rosenberg indicated Audit Services should then issue the advisory when ready. Judge O'Malley added that Audit Services should copy the committee members when issuing the advisory. Mr. Parks agreed to issue the advisory and copy or inform the committee members.

Action: Presiding Justice Siggins moved to approve the Amador audit report for public posting (seconded by Ms. Ugrin-Capobianco). The motion passed by unanimous voice vote of the committee members present.

ADJOURNMENT

There being no further open meeting business, the meeting was adjourned to closed session at 12:41 pm.

CLOSED SESSION

Item 1

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

Mr. Parks on behalf of Audit Services staff thanked the court for the assistance and cooperation provided during the audit. He commended the court for not having any findings with their procurement and contracting practices, payment processing, and the calculation and reporting of its one percent fund balance cap. He mentioned there were some findings in the cash handling area, similar to what the committee discussed earlier in the public session, such as in the handling of mail payments and handwritten receipts. Overall, the court agreed with the audit findings. Mr. Parks recommended that the committee approve the report for public posting.

Judge Rosenberg asked if Siskiyou superior court management would like to comment. Ms. Renee Crane, Siskiyou Court CEO, commended Audit Services staff for listening and helping along the way during the audit.

Action: Ms. Ugrin-Capobianco moved that the audit of the Superior Court of California, County of Siskiyou be approved and posted publicly (seconded by Judge O'Malley). The motion passed by unanimous voice vote of the committee members present.

ADJOURNMENT

There being no further closed session business, the meeting was adjourned at 12:46 PM.

Approved by the advisory body on December 5, 2018. [PENDING]

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND
FINANCIAL ACCOUNTABILITY FOR THE
JUDICIAL BRANCH

Meeting Date: 12/5/2018

Informational Item #1 – (No Action Required)

Report from Audit Services

Status Update – Judicial Council's Audit Services

Staffing & Workload

Audit staff have completed on-site fieldwork at Glenn Superior Court and the 5th District of the Courts of Appeal (DCA). Audit testing is being finalized and going through supervisory review. Audit staff will be contacting San Benito Superior Court and the 4th DCA to schedule their upcoming audits, which are expected to begin in December. Also, our San Francisco audit team has initiated an audit of Merced's *Court Innovations Grant*. Audit staff visited Merced during the week of November 12th.

At the last audit committee meeting in October, members requested that an audit advisory be issued that focuses on the repeated cash handling findings noted in past audits and the associated risks. Audit Services issued that audit advisory on November 7, 2018. A copy of that advisory is attached for your reference. (Attachment A – Audit Advisory on Cash Handling Practices).

Upcoming External Audits

State Auditor's Office

The California State Auditor's Office is currently conducting procurement compliance audits in accordance with the Judicial Branch Contract Law (Public Contract Code, Sections 19201 – 19210). The State Auditor has selected the following five superior courts for review:

- Imperial
- Los Angeles
- Monterey
- Santa Barbara
- Santa Cruz

Committee staff expect these audits to be completed and reported to the audit committee before January 15, 2019.

State Controller's Office

The State Controller's Office is nearing completion of its audit of Sonoma Superior Court's revenues, expenditure and fund balance. Committee staff expect that report to be available at our next audit committee meeting.

Committee staff anticipate that the State Controller's Office will begin its biennial audit of the Judicial Council's revenues, expenditures and fund balance (per Government Code, Section 77206(i)). The audit period will focus on fiscal year 2017-18 and include all revenues, expenditures and fund balances under the Judicial Council's control. The interagency agreement between the Judicial Council and the State Controller's Office is currently awaiting execution.

Miscellaneous Updates

Contract Court Interpreters

The Court Executives Advisory Committee (CEAC) continues to work on developing new rules for Judicial Council approval that will govern court payments to contract court interpreters. At a prior audit committee meeting, committee members requested that Audit Services suspend temporarily all audit activity pertaining to court interpreter payments (pending an anticipated revision to existing Judicial Council policy).

Policies & Procedures Manual for Courts of Appeal

Susan Miller (CEO of the 6th DCA) has volunteered to lead a joint effort with Judicial Council staff from Branch Accounting and Procurement to develop a set of systemwide policies and procedures. Currently, only the Judicial Branch Contracting Manual (JBCM) is the primary source of criteria used during audits of the Courts of Appeal. A preliminary planning meeting is scheduled for December 5th.

JBSIS Data Quality Standards

CEAC continues to work on developing data quality standards and tentatively plans to have a draft ready soon for internal discussion. Assuming no disagreement among CEOs, the new standards will be placed on CEAC's agenda for its next meeting in late January / early-February.

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
November 7, 2018

To
Court Executive Officers of the Superior Courts

From
Grant Parks
Principal Manager - Audit Services

Subject
Audit Guidance #2018-2, Cash Handling

Action Requested
Informational

Deadline
N/A

Contact
Grant Parks, Principal Manager
Audit Services

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

The Judicial 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 Judicial Council's criteria on the issues, 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 the issues, and recommendations for consideration by each court's executive management.

Background

Issue Area: Cash Handling
Sub-Area: Voids, Manual Receipts, and Payments Received by Mail

Applicable Criteria: Trial Court Financial Policies and Procedures Manual (FIN Manual), Policy 10.02, Section 6.3.8 – Void Transactions

FIN Manual Policy 10.02, Section 6.3.9 – Manual Receipts
FIN Manual Policy 10.02, Section 6.4 – Payments Received Through the Mail

Description of the Issues

The significant amount of public funds that flow into the courts each day expose the judicial branch to the risk of fraud or theft, particularly on the part of court employees who receive and/or process these payments. Further, actual instances of theft—and some courts' reliance on complaints from the public to detect errors—expose the judicial branch to potential criticism that it can or should do more to reliably process the public's payment transactions.

The Judicial Council's Advisory Committee on Audits and Financial Accountability for the Judicial Branch (audit committee) wishes to advise courts that cash handling issues were the most commonly reported audit findings in fiscal year 2017-18, and so far, they have continued in fiscal year 2018-19 based on audit reports issued by both Audit Services and the State Controller's Office. The audit committee intends for this audit advisory to highlight certain areas of risk in the courts' observed cash handling practices, and to encourage each court's management team to proactively review their local practices to ensure well-designed and effectively operating internal controls are in place. The sections below provide an overview of certain cash-handling practices and their risks, followed by a summary of the FIN Manual's suggested guidance—and at times mandatory requirements—that are intended to mitigate these risks.

Voided Transactions

Voided payment transactions are a high-risk activity for courts because unscrupulous court employees may void transactions (i.e. payments received from the public) in order to facilitate theft. Specifically, a court employee might: accept payment from the public; provide a CMS-generated receipt to the customer; and then subsequently void the transaction and keep the money. In order to limit this opportunity for theft, the FIN Manual prescribes a segregation of duties between the entering and reviewing/approving of voided transactions. The FIN Manual also requires the details of any re-receipting to be maintained for five years (so there is an audit trail showing how the funds associated with the voided transaction were ultimately applied). Specifically, the FIN Manual prescribes the following:

- A supervisor ***must review*** and approve all voided transactions. Where possible, the ***CMS system security access levels should be adjusted*** so that a supervisor (or designee) must review and approve the voided transactions before it takes place in the system. The trial court ***will retain*** all void receipts for five years, including the details of any re-receipting of the original voided transaction. (FIN 10.02, 6.3.8(1)).

- The court's CMS system ***should keep*** an appropriate audit trail of voided transactions by maintaining a record of both the original transactions entered as well as the subtraction caused by the void. Original transactions entered into CMS should be voided and not deleted. (FIN 10.02, 6.3.8(2))

However, some courts do not retain sufficient records to clearly show how voided transactions were "re-rung" to other cases, preventing further analysis of how the funds were ultimately applied. In other instances, courts have not required supervisors to review and approve voided transactions prior to the daily closeout process. Without consistent supervisory review, and an audit trail to show how the court applied and accounted for the money from voided transactions, voids can become a significant high-risk area in a court's daily operations.

During a previous year's audit, Audit Services noted that a court did not maintain records to demonstrate how the funds from a voided transaction selected for review were re-applied (i.e. "re-receipted" or "re-rang"). The court investigated this transaction further but ultimately could not determine whether the payment was re-rung and re-applied, nor could it determine the final disposition of the payment.

Manual / Handwritten Receipts

The risks associated with manually-issued (i.e. handwritten) receipts is very similar to voided transactions. When issuing manual receipts, unscrupulous court employees can accept funds, issue a manual receipt to the customer, and then keep the money and destroy the court's sole hardcopy record of the transaction. Court management's ability to prevent theft and identify which employees have been stealing funds is further limited when the court does not maintain proper physical security of its manual receipt books (when not in use) and does not reliably record which of its employees would have been positioned to issue certain manual receipts, and when.

The FIN Manual attempts to reduce the risk for theft by encouraging each court to keep tight physical security and control over its manual receipt books and to maintain clear and complete records of the issuance, use, and subsequent collection of these books from court staff. Specifically, the FIN Manual provides the following key suggested guidance and mandatory requirements:

- Manual receipts ***should only*** be used as a backup procedure when the cashiering system and/or CMS system is unavailable or cannot be accessed to enter case payment transactions. (FIN 10.02, 6.3.9(1))

- Manual receipt books ***should be*** acquired centrally at each physical location, ***should be*** inventoried annually, and ***should be*** secured in a locked cabinet or safe when not in use. (FIN 10.02, 6.3.9(4)(a))

- All receipts in the receipt book ***will be*** numbered sequentially and not be repeated in other manual receipt books. Each receipt ***will be*** a 3-part form that includes (1) the customer copy; (2) deposit record copy; and (3) a copy retained in the receipt book. (FIN 10.02, 6.3.9(4)(b))

- The fiscal office ***will log*** the books in a manual receipt book log that ***will contain*** information on each book, including the book number, the numerical sequence of receipts for each book, the date issued to a court facility supervisor, the name of the court facility and supervisor the book was issued to, and the date the supervisor returned the book. (FIN 10.02, 6.3.9(4)(c))

- Court facility supervisors—who receive manual receipt books—***must ensure*** the completeness of the manual receipts contained in the books they receive by verifying all receipt numbers are accounted for and by creating and maintaining a log that is both initialed by the supervisor and lists each book's specific receipt numbers. Once verified, the supervisor ***must store and secure*** the receipt books in a locked cabinet or safe. (FIN 10.02, 6.3.9(5))

- The supervisor or designee ***must maintain control and oversight*** of the manual receipt books. When the CMS is unavailable to process automated receipts, the supervisor will retrieve (from locked storage) and issue manual receipt books to cashiers. (FIN 10.02, 6.3.9(6)(a))

- The supervisor (or designee) issuing the manual receipt books ***must monitor*** and maintain an accounting of the receipt books, including: (1) the specific books issued; (2) to whom the books were issued; (3) the date issued; (4) the name of the person returning the book; (5) the date the books were returned (should be the end of same day), and (6) the receipt numbers used within each book. (FIN 10.02, 6.3.9(6)(b))

- Cashiers ***must*** complete manual receipts with all required information and issue the original copy of the manual receipt to the paying customer. The cashiers ***must attach*** the first copy of the manual receipt with the payment for later processing when the CMS system is available for payment processing. The second copy of the manual receipt must remain intact in the manual receipt book. (FIN 10.02, 6.3.9(7))

- Courts ***must*** keep manual receipt payments separate from CMS processed payments. The payments, manual receipts, and any associated case files ***must be kept*** in a designated secure locked drawer or cabinet until they can be processed in the CMS system. Manual receipt transactions ***must be processed*** as soon as possible after the CMS is restored to active status. Cashiers ***must submit*** the first copy of the manual receipt and associated payment with the closeout and balancing documentation for supervisor or designee review and verification. (FIN 10.02, 6.3.9(9) and (10))

- Completely used manual receipt books ***must be returned*** to the fiscal office and logged in by recording the date returned and the facility supervisor or designee returning the book. The fiscal office ***must verify*** the completeness of the numerical sequence of the used receipts and initial and date the log. (FIN 10.02, 6.3.9(11))

During fiscal year 2017-18, Audit Services found some courts did not keep records indicating to whom they had issued their manual receipt books. In certain cases, the court could not locate the specific manual receipt books Audit Services had requested to review. We also noted examples where some courts did not always keep their manual receipt books secured (such as in a locked cabinet or safe) when not in use. Court employees who are permitted to retain receipt books for extended periods of time (without continued court monitoring) have greater opportunity to use manual receipts inappropriately to collect and conceal payments made by the public.

Audit Services noted past instances where court employees stole payments receipted with manual receipts. At two separate courts, a court employee stole manual receipt payments and entered void or adjustment transactions in the CMS system to adjust the amounts due on the associated accounts. Both courts subsequently identified and dismissed the employees and referred the matters to law enforcement who charged and convicted the employees of embezzlement, as reported in local news media. In another instance, a court employee stole unprocessed manual receipt payments that the court stored in a cabinet that was left unlocked. The court could not identify the specific court employee who stole these payments since several employees had unabated access to the payments in the unlocked cabinet when the incident occurred.

Payments Received by Mail

Weaknesses in how courts process payments received by mail were the single most common audit finding in fiscal year 2017-18. Payments received by mail are especially high-risk transactions because the paying member of the public is not present for the transaction and is not guaranteed to receive a receipt. Similar to earlier examples in this advisory memo, weak internal controls could allow a court employee to open the mail, take possession of a payment without the

supervision or knowledge of any other court employee, and then never record the payment as having been received by the court.

The FIN Manual attempts to address these risks by recommending that courts follow a two-person team approach to opening and processing payments received by mail. Further, the FIN Manual encourages courts to keep a log of the payments received so they can be tracked and reconciled to a corresponding CMS payment entry or reported to court management when staff cannot promptly enter them into the Court's CMS system. Key guidance and mandatory requirements from the FIN Manual include:

- Checks and money orders received through the mail ***should be*** processed on the day they are received. Any exceptions are brought to the attention of a supervisor, placed under dual control, and processed as soon as practicable. (FIN 10.02, 6.4(1))

- Money received through the mail ***will be*** deposited and entered in the court's cashiering system and/or CMS system on the day received. (FIN 10.02, 6.4(1))

- To provide the strongest protection of trial court assets and to protect the integrity and reputation of the trial court, the trial court ***should use a team approach*** to maintain accountability for payments received through the mail. Mail should only be processed when both team members are present. Two-person teams ***should be*** rotated regularly and those who open and log the mail payments should not also enter the mail payments in the court's CMS system, if possible. (FIN 10.02, 6.4(2))

- To provide for the strongest oversight and monitoring of payments received through the mail, courts ***should maintain a payments receipt log***. Without a payments receipt log, courts have no record to reference or research if a mail payment is lost or stolen. The mail payments receipt log should include: (1) the case or docket number; (2) the name of the person making payment; (3) the amount of cash, check or money order; (4) the date received in the mail; and (5) the name of the person opening the mail and recording the payment on the payments receipt log. (FIN 10.02, 6.4(3)(a))

- After the mail payments have been entered into the CMS system, a CMS report ***should be*** reconciled against the payments receipt log to ensure that all the mail payments were entered into the system. A copy of the payments receipt log ***will be*** included with the daily closeout documentation. (FIN 10.02, 6.4(3)(e))

- Any payment that cannot be processed ***will be*** attached to the payments receipt log sheet and appropriately safeguarded in the safe until the payment can be processed the next business day. (FIN 10.02, 6.4(3)(f))

- Trial court staff responsible for processing payments ***must review*** on a daily basis all payments held over from the prior day's work to determine if any can be processed. This requirement can be met by reviewing the court's payments receipt log. The log ***must specify*** the reason why the payment cannot be processed and identify payments held in suspense more than 5, 15, and 30 calendar days. (FIN 10.02, 6.4(4)(a) and (b))

- Court staff ***must report to the CEO*** or the court's CFO—on at least a monthly basis—a list of any payment that has been held for more than 15 and 30 calendar days without being processed. The report must provide case-specific information (such as the case or docket number, payment amount, date received, and reason why the payment cannot be processed). (FIN 10.02, 6.4(4)(c))

Some of the specific observations noted by Audit Services during its audits of the courts included:

- The suggested two-person team approach was not consistently followed by the courts, and the alternative one-person / sequential team approach cited in the FIN Manual (at FIN 10.02, 6.4(2)(b)) was similarly not followed. At times, one person at the court opened the mail and created a payment receipt log without video surveillance (contrary to suggested guidance at FIN 10.02, 6.4(2)(a)).

- Courts did not always create or maintain payments receipt logs, and thus could not track and reconcile the mail payments to ensure all were entered into the CMS nor how long the mail payments went unprocessed. The lack of such a log also prevents the court from identifying the universe of payments that were received in the mail and when. The lack of a log also calls into question whether court staff can accurately and completely identify and report unprocessed payments received by mail to the CEO and court CFO (which is a mandatory requirement).

- Some courts maintained a payments receipt log for mail payments, but did not include the payments received in the court's drop box (which is fundamentally the equivalent of receiving the payment via the mail without postage).

- Unprocessed mail payments were not always separately secured (i.e. in a locked cabinet or safe) by some courts and instead were left out overnight unsecured on top of desks or shelves.

Courts commonly cited a lack of staff resources to implement the suggested two-person team approach. However, court management should review and take advantage of the flexibility

provided in the FIN Manual, such as by installing video cameras to monitor mail processing if the suggested two-person team approach is not feasible. Other explanations provided by court management included the acknowledgement that some court employees had limited knowledge of the FIN Manual's requirements.

In fiscal year 2018-19, a court reported to Audit Services a recent incident of mail payment theft by a court employee. A paying customer made inquiries to the court about the status of a payment sent in the mail. After researching, the court suspected that a court employee stole the associated money order (which had a blank payee line) from the payments received in the mail and cashed the money order at a local check cashing establishment. The court subsequently referred the matter to law enforcement, which investigated the incident and ultimately led to an employee's admission of guilt and dismissal from employment at the court.

Recommendations

All superior courts are encouraged to review their practices for: processing voided transactions; maintaining control over manual receipts; and the tracking and prompt application of payments received by mail. The extent and breadth of each court's review should be informed by its own assessment of risk given its local practices.

At a minimum, each court should consider performing the following:

a.) Review some examples of voided transactions to verify that a supervisor approved the transaction and that sufficient documentation exists to demonstrate how the funds were ultimately applied. Court management should also consider reviewing CMS system-level privileges to ensure users cannot approve the voiding of transactions that they themselves entered.

b.) Conduct an inventory of all manual receipt books to ensure all are accounted for and can be located under the custody of specific court supervisors. Further, courts should ensure that all of its receipt books (when not in use) are physically secured in a locked cabinet or safe. The court should also continuously monitor and account for the use of the receipts in each of its manual receipt books to determine if there are gaps in the sequential listing of receipt numbers and determine the cause of any missing receipts.

c.) Review its mail payment processing procedures to ensure it is following either the two-person team approach or the alternative approaches cited in the FIN Manual. Courts should also ensure they are consistently using payments receipt logs to track and reconcile the payments received by mail to a CMS payment entry and can report payments that go unprocessed for extended periods of time to the court's CEO and CFO as required.

JUDICIAL COUNCIL
OF CALIFORNIA

ADVISORY COMMITTEE ON AUDITS AND FINANCIAL ACCOUNTABILITY FOR THE JUDICIAL BRANCH

Meeting Date: 12/05/2018

Action Item #1 – (Action Required)

External Audit Report – State Controller's Office

Requested Action:

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

Supporting Documents:

- ***Attachment B***—California State Controller's audit of San Mateo Superior Court for fiscal year 2016-17 (review of revenues, expenditures, and fund balance per Government Code, Section 77206(h))

- ***Attachment C*** - California State Controller's audit of Tehama Superior Court for fiscal year 2016-17 (review of revenues, expenditures, and fund balance per Government Code, Section 77206(h))

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 in order to facilitate the pilot audit program, which includes the following six courts:

- Yolo – (discussed in committee, May 23, 2018)
- Sacramento – (discussed in committee, August 23, 2018)
- Amador – (discussed in committee, October 3, 2018)
- San Mateo – (discussed in committee today)
- Tehama – (discussed in committee today)

- Sonoma – (expected in January)

<u>San Mateo Audit Summary</u>

Overall, the SCO concluded that San Mateo had "complied with governing statutes, rules and regulations relating to the validity of recorded revenues, expenditures, and fund balances. However, the SCO did identify some weaknesses in internal controls in the following areas:

Cash Handling – (Cashiers not safeguarding cash). The SCO observed some cashiers are not always adequately safeguarding cash, noting two instances when cashiers left the keys unsecured in the cash register's keyhole while not at their stations.

Cash Handling – (Daily Closeout). The court does not reconcile between the amounts received (both in person and through the mail) with the amounts processed.

Unclaimed Trust – (Escheatment Process): The court is missing an opportunity to begin the escheatment process on funds held in trust for more than three years by not providing public notice. The SCO notes that the court has $3.2 million in unclaimed trust accounts that are over three years old.

The San Mateo court agreed with the SCO's observations and noted it has started an internal review of its practices. In the meantime, they have reminded cashiers to never leave unattended the keys to cash drawers and have started taking steps to clarify mail payment handling procedures. Finally, San Mateo acknowledged there was value in revisiting its processes for deciding when to initiate the public notice requirements for the escheatment process.

<u>Tehama Audit Summary</u>

Overall, the SCO concluded that Tehama had "complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances. However, the SCO did identify some weaknesses in internal control in the following areas:

Cash Handling – (Mail Payment Processing): Lack of two-person team approach to opening and processing payments received by mail (and the people

assigned to this function are not rotated regularly) as suggested by the Trial Court Financial Policies and Procedures Manual (FIN Manual).

Cash Handling – (Daily Deposits): The court allows one person to make daily bank deposits even though the FIN Manual prohibits this when the deposit amount exceeds $3,000 in coin and paper currency.

Unclaimed Trust – (Escheatment Process): The court is missing an opportunity to begin the escheatment process on funds held in trust for more than three years by not providing the necessary public notice. The SCO notes that the court has roughly $83,000 in unclaimed trust accounts that are over three years old.

Tehama superior court indicated in its response that it agreed with the audit findings, and notes that it began using a two-person team approach beginning on October 22, 2018 and further explained that staff will be rotated. The court also indicated that it plans to contact an armored car vendor to eliminate the need to have an employee making daily deposits alone. With respect to unclaimed trust, the court agrees that action is necessary and plans to implement procedures to address unclaimed trust in a timely manner going forward.

Action 1: Committee staff recommend that the audit committee approve the public posting of the attached SCO audit reports (Attachments B and C) on www.courts.ca.gov per California Rules of Court, Rule 10.63(c)(1).

SUPERIOR COURT OF SAN MATEO COUNTY

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2016, through June 30, 2017

BETTY T. YEE
California State Controller

November 2018

BETTY T. YEE
California State Controller

November 14, 2018

Neal Taniguchi, Court Executive Officer
Superior Court of California, County of San Mateo
400 County Center
Redwood City, CA 94063

Dear Mr. Taniguchi:

The State Controller's Office audited the Superior Court of San Mateo 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 action.

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/as

cc: Steven Chang, Finance Director
Superior Court of California, County of San Mateo
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

Contents

Audit Report

Summary 1

Background 1

Objective, Scope, and Methodology 2

Conclusion 5

Follow-up on Prior Audit Findings 6

Views of Responsible Officials 6

Restricted Use 6

Findings and Recommendations 7

Attachment—Court's Response to Audit Findings

Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of San Mateo 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 weaknesses in the court's administrative and internal accounting control system. Specifically, we found that the court:

- Had inadequate internal controls over the cash-handling process; and
- Failed to follow up on unclaimed trust accounts.

Background

The court operates from five court locations in San Mateo County, California. The court employs 29 judges and approximately 285 staff members to fulfill its operational and administrative activities. The court incurred more than $41 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. These three funds each had revenues and expenditures in excess of 4% of total revenues and expenditures; therefore, all three funds are 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 achieve 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 assess the court's 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 $9,302,635 out of $42,959,817, or 21.7% of the total revenues (see the table below for percentages of revenue accounts sampled); and
- Judgmentally sampled a minimum of 10% 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 Account	Total Revenues	Percentage Total	Total Amount Tested	Percentage Tested
State Financing Sources				
Trial Court Trust Fund	$ 35,159,991	81.8%	$ 5,962,747	17.0%
Court Interpreter	1,952,069	4.5%	211,696	10.8%
MOU Reimbursements	877,448	2.0%	294,805	33.6%
Other Miscellaneous	2,411,113	5.6%	2,411,113	100.0%
	40,400,621		8,880,361	
Grants				
AB1058 Commissioner/Facilitator	704,953	1.6%	326,842	46.4%
	704,953		326,842	
Other Financing Sources				
Local Fees	703,899	1.6%	95,432	13.6%
	703,899		95,432	
Other Accounts[1]	1,150,344	2.7%	-	
	1,150,344		-	
Total Revenues	$ 42,959,817	100.0%[2]	$ 9,302,635	21.7%

[1] Revenue amounts in Other Accounts were not selected for testing.

[2] Footing difference due to rounding.

Expenditure Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund by selecting non-statistical samples (see below) 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

- For Operating Expenditures and Equipment, and Special Items of Expenditure, judgmentally sampled a minimum of 10%, or 10 line items, of the selected expenditure accounts consisting of large dollar amounts, and traced the amounts to supporting documentation. Tested individual accounts that exceeded $500,000, totaling $1,851,863 of $6,551,011, or 28.3%.
- For Salaries – Permanent Employees, we selected 10 employees out of 260 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, approved, and properly supported;
  - Regular earnings were supported by the Wage Table; and
  - Regular earnings were supported by the general ledger.
- For Staff Benefits, we selected the same 10 employees out of 260 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.

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	Total Amount Tested	Percentage Tested
Operating Expenditures and Equipment				
General Expense	$ 710,830	1.7%	$ 52,773	7.4%
Security Services	448,202	1.1%	447,827	99.9%
Contracted Services	2,415,384	5.8%	151,182	6.3%
Consulting and Professional Services	993,261	2.4%	424,591	42.7%
Information Technology	1,482,334	3.5%	375,490	25.3%
Total, Operating Expenditures and Equipment	6,050,011		1,451,863	
Special Items of Expenditure				
Other	501,000	1.2%	400,000	79.8%
Total, Special Items of Expenditure	501,000		400,000	
Total Expenditures Selected for Testing	6,551,011		$ 1,851,863	28.3%
Other Accounts[1]	1,343,804	3.2%		
Total, Other Accounts	1,343,804			
Personnel Services[2]				
Salaries – Permanent	21,635,094	51.5%		
Staff Benefits	12,460,857	29.7%		
Total, Personnel Services	34,095,951			
Total Expenditures	$ 41,990,766	100%[3]		

[1] Expenditure amounts in Other Accounts were not selected for testing.

[2] Personnel Services was tested using a different methodology.

[3] Footing difference due to rounding.

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 the fund balances:

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	$ 758,899	$ 1,331,814	$ -	$ 2,090,713
Revenues	41,076,051	909,295	974,471	42,959,817
Expenditures	(39,940,963)	(939,620)	(1,110,183)	(41,990,766)
Transfers In	-	299,936	135,712	435,648
Transfers Out	(435,648)	-	-	(435,648)
Ending Balance	$ 1,458,339	$ 1,601,425	$ -	$ 3,059,764
Percent Change	92.2%	20.2%	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 weaknesses in the administrative and internal accounting control system, which are described in the Findings and

Recommendations section of this report. Specifically, we found that the court:

- Had inadequate internal controls over the cash-handling process; and
- Failed 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 April 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 October 19, 2018. Neal Taniguchi, Court Executive Officer, responded by letter dated October 26, 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 California, County of San Mateo; 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

November 14, 2018

Findings and Recommendations

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

During our review of the court Traffic Division's internal controls, we found that the court 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:

- The court maintains no cash receipt log from the prior day verifying the next day opening balance of $150. Both the cashier and the manager must sign and date a cash receipt log for each verification and receipt.
- Management does not always ensure that cashiers are adequately safeguarding cash. We observed two instances in which staff members did not keep their cash drawer keys secured, and left keys unsecured in register keyholes while not at their stations.
- Management does not provide counter workers with the mail payment totals to be processed. Therefore, there is no verification and reconciliation between the amount received and the amount processed.

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 work more effectively in complying with governing statutes and procedures.

Trial Court Financial Policies and Procedures Manual FIN 10.02 establishes uniform guidelines for trial court employees to use in receiving and accounting for payments.

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 with the recommendation that the court follow its cashiering policies and procedures to strengthen its controls over the cash handling process. We are reviewing our compliance with Judicial Council and internal policies and procedures related to cash handling. In the meanwhile, we have reminded cashiers to never leave keys in cash drawers unattended, and will perform random spot checks. In addition, we have started to maintain a cash receipt log for each cash change drawer and have clarified the procedures for handling payments made by mail.

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 $3,238,580 of unclaimed trust accounts that were 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 trust accounts did not comply with statutory requirements:

Trust Account	Amount Older than June 30, 2014
Civil Trust – Interpleader	$ 1,420,102
Civil Trust – Other	58,192
Jury Fees	124,760
Traffic	10,712
Civil Trust – Appeal Transcripts	59,348
Civil Trust – Small Claims Judgment	43,710
Partial Payment of Fees	3,252
Civil Unreconciled Trust	1,518,504
Total	$ 3,238,580

The failure occurred because the court does not have enough sufficiently trained staff members 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 pursuant to this section, 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 period specified in subdivision (a), 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 train staff members to maintain up-to-date notices for all trust accounts.

Court Response

The court agrees with the recommendation that the court establish and implement procedures to train staff to maintain reconciliation and disposition of all trust accounts. The escheatment process can be started for a small portion of the $3,238,580 that was deposited in trust with the court prior to June 30, 2014. The vast majority of those monies are associated with open cases, and therefore cannot at this moment be escheated by the court. None of the monies are related to restitution payments. Virtually all victim restitution collections are, by judges' orders, payable to the County of San Mateo's revenue services office or the California Department of Corrections and Rehabilitation, not to the court.

Attachment—
Court's Response to Audit Findings

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SAN MATEO
400 COUNTY CENTER
REDWOOD CITY, CA 94063-1655

NEAL I. TANIGUCHI
COURT EXECUTIVE OFFICER
CLERK & JURY COMMISSIONER

Tel: (650) 261-5016
Fax: (650) 261- 5147

October 26, 2018

Lisa Kurokawa, Chief
Local Government Compliance Bureau
Division of Audits
State Controller's Office
3301 C Street, Suite 705
Sacramento, CA 95816

Dear Ms. Kurokawa:

The San Mateo Superior Court received the State Controller Office's preliminary audit report on October 19, 2018. Overall, we agree with the findings and recommendations.

The Court wishes to acknowledge the staff of the State Controller's Office on their professional and efficient audit process with our Court. In particular, we want to note that we found the auditor assigned to us, Philip Orth, to be professional, well organized, courteous, and mindful of the fact that the audit was taking place during the year-end financial closing process for the court.

Below are the court's responses to the two findings and the associated recommendations.

Finding 1 – Inadequate internal controls over the cash-handling process

The court agrees with the recommendation that the court follow its cashiering policies and procedures to strengthen its controls over the cash handling process. We are reviewing our compliance with Judicial Council and internal policies and procedures related to cash handling. In the meanwhile, we have reminded cashiers to never leave keys in cash drawers unattended, and will perform random spot checks. In addition, we have started to maintain a cash receipt log for each cash change drawer and have clarified the procedures for handling payments made by mail.

Finding 2 – Failure to follow up on unclaimed trust accounts

The court agrees with the recommendation that the court establish and implement procedures to train staff to maintain reconciliation and disposition of all trust accounts. The escheatment process can be started for a small portion of the $3,238,580 that was deposited in trust with the court prior to June 30, 2014. The vast majority of those monies are associated with open cases, and therefore cannot at this moment be escheated by the court. None of the monies are related to restitution payments. Virtually all victim restitution collections are, by judges' orders, payable to the County of San Mateo's revenue services office or the California Department of Corrections and Rehabilitation, not to the court.

Sincerely,

Neal I. Taniguchi
Court Executive Officer, Clerk & Jury Commissioner
cc: Presiding Judge Susan Irene Etezadi
Steven Chang, Director of Finance

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

http://www.sco.ca.gov

SUPERIOR COURT OF TEHAMA COUNTY

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2016, through June 30, 2017

BETTY T. YEE
California State Controller

November 2018

BETTY T. YEE
California State Controller

November 14, 2018

Kevin Harrigan, Court Executive Officer
Superior Court of Tehama County
1740 Walnut Street
Red Bluff, CA 96080

Dear Mr. Harrigan:

The State Controller's Office audited the Superior Court of Tehama 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 action.

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/as

cc: Angie Kiefer, Court Financial Officer
Superior Court of Tehama 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

Contents

Audit Report

Summary 1

Background 1

Objective, Scope, and Methodology 2

Conclusion 5

Follow-up on Prior Audit Findings 6

Views of Responsible Officials 6

Restricted Use 6

Findings and Recommendations 7

Attachment—Court's Response to Audit Findings

Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of Tehama 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 weaknesses in the court's administrative and internal accounting control system. Specifically, we found that the court:

- Had inadequate internal controls over the cash-handling process; and
- Failed to follow up on unclaimed trust accounts.

Background

The court operates from one court location in Tehama County, California. The court employs three judges and approximately 42 staff members to fulfill its operational and administrative activities. The court incurred more than $5 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. These three funds each had revenues and expenditures in excess of 4% of total revenues and expenditures; all three 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 achieve 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 assess the court's 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 $200,000, totaling $735,136 out of $5,075,555, or 14.5% of the total revenues (see the table below for percentages of revenue accounts sampled); and
- Judgmentally sampled a minimum of 10% 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	$ 3,819,606	75.3%	$ 619,932	16.2%
MOU Reimbursements	232,535	4.6%	41,260	17.7%
	4,052,141		661,192	
Grants				
Judicial Council of California Grant	385,461	7.6%	73,944	19.2%
	385,461		73,944	
Other Accounts[1]	637,954	12.6%	-	
	637,954		-	
Total Revenues	$ 5,075,555	100.0%[2]	$ 735,136	14.5%

[1] Other accounts were not selected for testing.

[2] Footing difference due to rounding.

Expenditure Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund by selecting non-statistical samples (see next page) 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

- For Operating Expenditures and Equipment, judgmentally sampled a minimum of 10% of the selected expenditure accounts consisting of large dollar amounts, and traced the amounts to supporting documentation. Tested individual accounts that exceeded $200,000, totaling $182,787 of $1,236,226, or 14.8%.

- For Salaries – Permanent Employees, we selected four employees out of 45 from a list provided by the court for two pay periods in October 2016 and two pay periods in April 2017, and reconciled the amounts to supporting documentation to ensure that:

  - Employee time included supervisory approval;

  - Overtime was authorized, approved, and properly supported;

  - Regular earnings were supported by the Salary Resolution; and

  - Regular earnings were supported by the general ledger.

- For Staff Benefits, we selected the same four employees out of 45 from a list provided by the court for two pay periods in October 2016 and two pay periods in April 2017, and reconciled the amounts to supporting documentation and the general ledger.

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
Operating Expenditures and Equipment				
General Expense	$ 226,246	4.4%	$ 27,045	12.0%
Contracted Services	774,990	15.0%	83,926	10.8%
Information Technology	234,990	4.6%	71,816	30.6%
Total, Operating Expenditures and Equipment	1,236,226		$ 182,787	14.8%
Other Accounts[1]	399,574	7.7%		
Total, Other Accounts	399,574			
Personnel Services[2]				
Salaries - Permanent	2,264,256	43.8%		
Staff Benefits	1,268,918	24.5%		
Total, Personnel Services	3,533,174			
Total Expenditures	$ 5,168,974	100%		

[1] Expenditure amounts in Other Accounts were not selected for testing.
[2] Personnel Services was tested using a different methodology.

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 the fund balances:

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	$ 934,301	$ 110,772	$ -	$ 1,045,073
Revenues	4,418,691	104,783	552,081	5,075,555
Expenditures	(4,496,332)	(70,662)	(601,980)	(5,168,974)
Transfers In	-	-	49,899	49,899
Transfers Out	(49,899)	-	-	(49,899)
Ending Balance	$ 806,761	$ 144,893	$ -	$ 951,654
Percent Change	(14%)	31%	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 weaknesses in the administrative and internal accounting control system, which are described in the Findings and Recommendations section of this report. Specifically, we found that the court:

- Had inadequate internal controls over the cash-handling process; and
- Failed 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 October 26, 2018. Kevin Harrigan, Court Executive Officer, responded by letter dated October 31, 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 California, County of Tehama; 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

November 14, 2018

Findings and Recommendations

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

During our review of the court's internal controls, we found that the court does not have adequate internal controls over the cash-handling process. 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:

- Only one employee opens the mail, instead of a two-person team. In addition, the mail-opening responsibilities are not regularly rotated among the staff members; and
- One employee from the accounting department makes daily deposits alone.

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 *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.4) states that a two-person team should be assigned to open the mail, the two-person team should be rotated regularly, and mail should only be processed when both team members are present.

The *Trial Court Financial Policies and Procedures Manual* (section 13.01, subsection 6.4.2) states:

> Courts will maintain adequate security of monies in transit to banks and assure that the delivery is made consistent with safety, court needs, and the requirements of this policy. Following are the different methods to be used for depositing state monies into trial court bank accounts.
>
> a. Trial Court Employee: A trial court messenger or other assigned employee may deliver bank deposits to the bank, provided that such direct delivery of deposits does not exceed $3,000 in coin and paper currency, and does not subject trial court employees to the hazard of robbery or compromise their safety, and if:
>
> i. The bank does not furnish bank deposit messenger service; or
>
> ii. An armored car service is not available or not economically justified.

<u>Recommendation</u>

We recommend that the court strengthen its controls over the cash-handling process and comply with the policies and procedures outlined in the *Trial Court Financial Policies and Procedures Manual*.

Court Response

The Court agrees. The following adjustments have been and/or will be made to the Court's operations to ensure adequate cash controls. The Court began utilizing a two person team to open the mail on October 22, 2018, and employees opening the mail will be rotated regularly. Also, the Court intends to contract with an armored car vendor to eliminate the need to have an employee making daily bank deposits alone.

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 $83,088 of unclaimed trust accounts that were 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:

Account	Account Name	Amounts older than 6/30/2014
353002	Civil Trust – Interpleader	$ 28,678
353003	Civil Trust – Other	7,382
353005	Traffic	16,461
353006	Criminal – Other	795
353021	Civil Trust – Interpleader	16,214
353024	Civil Trust – Small Claims Judgment	30
353039	Unreconciled Trust Civil and Criminal	13,528
Total		$ 83,088

The court overlooked statutory requirements and has not taken any action or published any notices to return these funds to lawful owners.

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 pursuant to this section, 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 specified in subdivision (a),, 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 action is necessary and will implement procedures to address unclaimed trust in a more timely manner going forward.
>
> Both the Court's judicial officers and staff are firmly dedicated to financial and operational transparency and accountability. As a good steward of public funds, the Court recognizes the importance and value of independent audits and fully supports SCO's continued efforts.

Attachment—
Court's Response to Audit Findings

Kevin Harrigan
Court Executive Officer
Clerk of the Court
Jury Commissioner

SUPERIOR COURT OF CALIFORNIA
COUNTY OF TEHAMA

Tehama Courthouse
1740 Walnut Street
Red Bluff, CA 96080
Fax (530) 527-9893

October 31, 2018

Lisa Kurokawa, Chief
Compliance Audits Bureau
State Controller's Office, Division of Audits
3301 C Street, Suite 725A
Sacramento, CA 95816

Transmitted via email to: jxzhou@sco.ca.gov

Re: Tehama Superior Court Audit for the period of July 1, 2016 through June 30, 2017

Dear Ms. Kurokawa,

The Superior Court of California, County of Tehama (Court) appreciates the opportunity to respond to the draft audit report prepared by the State Controller's Office (SCO). The audit was conducted under the authority of GC 77206(h) and focused on the validity of Court revenues, expenditures, and fund balance during the fiscal year 16-17. The Court has reviewed the Preliminary Final Report and offers the following responses to the audit's two findings and related recommendations.

Finding 1- Inadequate internal controls over the cash-handling process.

Response- The Court agrees. The following adjustments have been and/or will be made to the Court's operations to ensure adequate cash controls. The Court began utilizing a two person team to open the mail on October 22, 2018, and employees opening the mail will be rotated regularly. Also, the Court intends to contract with an armored car vendor to eliminate the need to have an employee making daily bank deposits alone.

Finding 2- Failure to follow up on unclaimed trust accounts.

Response- The Court agrees that action is necessary and will implement procedures to address unclaimed trust in a more timely manner going forward.

Both the Court's judicial officers and staff are firmly dedicated to financial and operational transparency and accountability. As a good steward of public funds, the Court recognizes the importance and value of independent audits and fully supports SCO's continued efforts.

Sincerely,

Kevin Harrigan
Court Executive Officer
Superior Court of California, County of Tehama

cc: Hon. C. Todd Bottke, Presiding Judge, Superior Court of California, County of Tehama
Mr. Grant Parks, Manager, Internal Audit Services, Judicial Council of California

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

http://www.sco.ca.gov