

SUPERIOR COURT OF SONOMA COUNTY

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

February 2019



BETTY T. YEE
California State Controller

February 6, 2019

Arlene Junior, Court Executive Officer
Superior Court of Sonoma County
600 Administration Drive, Room 106-J
Santa Rosa, CA 95403

Dear Ms. Junior:

The State Controller's Office audited the Superior Court of Sonoma 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 its fiscal control weaknesses and our 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

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Linda Walker, Finance Manager
Superior Court of Sonoma 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 Sonoma 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:

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

Background

The court operates from one court location in Sonoma County, California. The court employs three judges and approximately 678 staff members to fulfill its operational and administrative activities. The court incurred more than \$29 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 of California's *Trial Court Financial Policies and Procedures Manual*, trial courts are subject to rules and policies established by the Judicial Council 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 trial court employees are expected to fulfill the minimum requirements of their positions and 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 per GC sections 77206(h) and (j). 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.

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 accurately reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

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

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;
- 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 accounts within 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 all six individual revenue accounts that exceeded \$400,000, totaling \$5,577,450 out of \$29,430,373, or 19.0% 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 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	\$ 23,660,296	80.4%	\$ 3,768,752	15.9%
Court Interpreter	1,134,760	3.9%	226,654	20.0%
Other	1,172,050	4.0%	1,172,050	100.0%
	<u>25,967,106</u>		<u>5,167,456</u>	
Grants				
AB 1058 Commissioner/Facilitator	809,993	2.8%	142,084	17.5%
	<u>809,993</u>		<u>142,084</u>	
Other Accounts				
Local Fees	419,284	1.4%	54,259	12.9%
Enhanced Collections	1,308,640	4.4%	213,651	16.3%
	<u>1,727,924</u>		<u>267,910</u>	
Other miscellaneous accounts ¹	925,350	3.1%		
Total Revenues	<u>\$ 29,430,373</u>	<u>100.0%</u>	<u>\$ 5,577,450</u>	19.0%

¹Other miscellaneous accounts were not selected for testing.

Expenditure Substantive Testing

- Tested expenditure accounts within 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;

- For Operating Expenditures and Equipment and Other Accounts, judgmentally sampled a minimum of 10% of the selected expenditure accounts and traced the amounts to supporting documentation. Tested all six individual accounts that exceeded \$400,000, totaling \$1,259,815 of \$4,859,411, or 25.9%.
- For Salaries – Permanent Employees, we selected 10 employees out of 678 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;
 - Regular earnings were supported by the general ledger; and
- For Staff Benefits, we selected the same 10 employees out of 678 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				
Security Services	\$ 405,397	1.4%	\$ 50,876	12.5%
Facility Operations	747,937	2.5%	87,090	11.6%
Contracted Services	1,708,745	5.8%	247,500	14.5%
Consulting and Professional Services	851,801	2.9%	164,941	19.4%
Information Technology	645,531	2.2%	209,408	32.4%
Other Accounts				
Total Other Accounts	<u>500,000</u>	1.7%	<u>500,000</u>	100.0%
Total Operating Expenditures, Equipment and Other Accounts	<u>4,859,411</u>		<u>\$ 1,259,815</u>	25.9%
Personnel Services ¹				
Salaries – Permanent Employees	12,974,863	44.0%		
Staff Benefits	<u>10,576,844</u>	35.9%		
Total Personnel Services	<u>23,551,707</u>			
Other miscellaneous accounts ²	<u>1,069,590</u>	<u>3.6%</u>		
Total Expenditures	<u>\$ 29,480,708</u>	<u>100.0%</u>		

¹Personnel Services were tested using a different methodology.

²Other miscellaneous accounts were not selected for testing.

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); and
- Traced and recomputed individual fund balances in the court's financial supporting documentation to ensure accuracy and compliance with the *Trial Court Financial Policies and Procedures Manual*.

We did not identify any errors in the sample.

The following table identifies changes in the fund balances:

	General Fund	Non-Grant Fund	Grant Fund	Total
Beginning Balance	\$ 1,197,087	\$ 1,469,133	\$ -	\$ 2,666,220
Revenues	26,683,321	1,590,998	1,156,054	29,430,373
Expenditures	(26,625,701)	(1,462,484)	(1,392,523)	(29,480,708)
Transfers In	-	396	236,469	236,865
Transfers Out	(236,865)	-	-	(236,865)
Ending Balance	<u>\$ 1,017,842</u>	<u>\$ 1,598,043</u>	<u>\$ -</u>	<u>\$ 2,615,885</u>

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

We focused our review of the court's internal controls on 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:

- Maintained inadequate internal controls over the cash-handling process;

- Maintained inadequate internal controls over the review and approval 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 2011. 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 January 11, 2019. Arlene Junior, Court Executive Officer, responded by letter dated January 24, 2019 (Attachment), agreeing with the audit results. This final audit report includes the court's response.

Restricted Use

This audit report is solely intended for the information and use of the Superior Court of Sonoma 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 audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

February 6, 2019

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 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 the following deficiencies:

- The court’s safe is opened and closed by finance personnel in the morning and afternoon and is left unsecured during the day. Finance personnel do not remain at the safe until the lead clerk comes to collect and return cash bags into the safe at the start and end of the day. Cash bags are placed on a shelf in the open safe and finance personnel return later in the day to lock the vault.
- Money collected from the court’s offsite locations is transported by finance personnel in their personal vehicles between court locations with no security.
- Each clerk is responsible for his or her own lockable bag for cash collections. While the clerk is performing transactions at a transaction window, he or she takes money out of the bag and stores it in a lockable till at the window. Auditors observed instances in which clerks walked away from the transaction window with keys left in the till while performing transactions for customers.
- Only one court employee opens the mail, instead of a two-person team. In addition, the mail-opening responsibilities are not regularly rotated among staff members.

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 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.

The *Trial Court Financial Policies and Procedures Manual* (section 10.02) establishes uniform guidelines for trial court employees to use in receiving and accounting for payments received.

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.4) states:

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 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:

- 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's Response

The Court agrees with the findings and will work on implementing a process and procedure in order to comply with Trial Court Financial Policies and Procedures Manual Section 13.01, subsection 6.4.2 for deposits and Section 10.02, subsection 6.4 for payments received through the mail.

FINDING 2— Inadequate internal controls over the review and approval process

During our review of the court's internal controls, we found that the court staff did not comply with procurement policies and procedures to ensure effective management controls over the procurement process.

We tested two procurement transactions initiated during the audit period. For the two transactions tested, court staff incorrectly keyed data into the Procurement Comparison Spreadsheet. Staff members transposed numbers and added tax to items that already had tax assessed, thereby changing the original numbers submitted by the bidding entity.

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.

The *Trial Court Financial Policies and Procedures Manual* (section 1.03, subsection 6.4(d)) states:

Periodic (not less than monthly) reviews of applicable accounting records (relating to budgets, cash flow, timekeeping, payroll, procurement, cash collection, etc.) against original entries for accuracy.

Failure to properly review and approve procurement items could result in a material misstatement and the incorrect selection of the lowest bid.

Recommendation

We recommend the court review its bids for completeness and accuracy before final submission to the Judicial Council of California.

Court’s Response

The Court agrees with the findings and will work on implementing a process and procedure where we have a proper review of bids for accuracy prior to any final submission.

**FINDING 3—
Reclassification of
unclaimed trust
accounts**

During our review of the aging of court’s trust accounts, we found that the court did not reclassify \$433,982 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 that if the owners do not claim the money in their accounts, it becomes the property of the court.

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

<u>Trust Account</u>	<u>Amount Older than June 30, 2014</u>
Civil Trust Interpleader	\$ 264,060
Civil Trust – Other	58,523
Jury Fees	89,898
Criminal Bail	18,820
Civil Trust Court Reporter Fees	2,281
Civil Trust Appeals Transcripts	100
Partial Payment of Fees	300
Total	<u>\$ 433,982</u>

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.

The error occurred because the court does not have the necessary staff resources to maintain up-to-date notices for the trust accounts.

Recommendation

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

Court's Response

The Court agrees with the findings and will work on implementing a process and procedure to review monies that are older than three years in our trust accounts and in accordance with Trial Court Financial Policies and Procedures Manual Section 15.03 Escheat.

**Attachment—
Court's Response to Audit Findings**



Superior Court of California
County of Sonoma

Arlene D. Junior
Court Executive Officer/Clerk of the Court/Jury Commissioner

ACCESS, SERVICE, JUSTICE

January 24, 2019

Jim L. Spano, Chief - Division of Audits
California State Controller
Division of Audits, Compliance Audits Bureau
3301 C Street, Suite 710
Sacramento, CA 95816

Dear Mr. Spano,

We are in receipt of Sonoma's preliminary final audit report. Please find our responses to the audit report's findings and recommendations below.

Finding 1 – Inadequate internal controls over cash handling process

The Court agrees with the findings and will work on implementing a process and procedure in order to comply with Trial Court Financial Policies and Procedures Manual Section 13.01, subsection 6.4.2 for deposits and Section 10.02, subsection 6.4 for payments received through the mail.

Finding 2 – Inadequate internal controls over the review and approval process

The Court agrees with the findings and will work on implementing a process and procedure where we have a proper review of bids for accuracy prior to any final submission.

Finding 3 – Reclassification of unclaimed trust accounts

The Court agrees with the findings and will work on implementing a process and procedure to review monies that are older than three years in our trust accounts and in accordance with Trial Court Financial Policies and Procedures Manual Section 15.03 Escheat.

Sincerely,

A handwritten signature in black ink, appearing to be "Arlene D. Junior".

Arlene D. Junior
Court Executive Officer

Hall of Justice
600 Administration Drive
Santa Rosa, CA 95403

Empire Annex Courthouse
3035 Cleveland Avenue
Santa Rosa, CA 95403

Civil and Family Law Courthouse
3055 Cleveland Avenue
Santa Rosa, CA 95403

Juvenile Justice Center
7425 Rancho Los Guilicos Road
Santa Rosa, CA 95409

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

<http://www.sco.ca.gov>