

SUPERIOR COURT OF YOLO COUNTY

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

May 2018



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California State Controller

May 16, 2018

Shawn Landry, Court Executive Officer
Superior Court of Yolo County
1000 Main Street
Woodland, CA 95695

Dear Mr. Landry:

The State Controller's Office audited the Superior Court of Yolo County's (Yolo 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 the administration, jurisdiction, and control of Yolo court. The audit period is July 1, 2016, through June 30, 2017.

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

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

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

Sincerely,

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Martin Hoshino, Administrative Director
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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of Yolo County's (Yolo 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 the administration, jurisdiction, and control of Yolo court. The audit period is July 1, 2016, through June 30, 2017.

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

- Inadequate internal controls over the cash-handling process;
- Inadequate segregation of duties over the mail verification and posting process;
- Inconsistent adherence with procurement policies and procedures; and
- Inadequate internal controls for review and approval of expenditure processing.

This was the first audit performed pursuant to Government Code (GC) section 77206(h).

Background

Yolo court operates from five court locations in the City of Woodland, California. Yolo court employs 10 judges, a full-time and part time subordinate judicial officer, and approximately 102 court staff to fulfill its operational and administrative activities. Yolo court incurred more than \$13 million in expenditures for the period July 1, 2016, through June 30, 2017.

The following four funds are under the control of Yolo court: the General Fund, the Non-Grant Special Revenue Fund, the Grant Special Revenue Fund, and the Capital Project Fund. The General Fund and Non-Grant Special Revenue Fund had revenues and expenditures in excess of 4% of total revenues and expenditures; they are therefore considered material and significant.

In California, 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 also 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 GC sections 77000 through 77013 and adopted under CRC 10.804, respectively, 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 Judicial Council of California. The authority is provided by interagency agreement number 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 Yolo 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 the administration, jurisdiction, and control of Yolo court. The audit period is July 1, 2016, through June 30, 2017.

Specifically, we conducted this audit to determine whether:

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

To accomplish our objective, we:

General Procedures

- Reviewed Yolo courts' Governance Policies, Budget Act, Manual of State Funds, GC sections 13400 through 13407 and GC sections 77000 through 77013, CRC, 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 Yolo court's website, and interviewed Yolo 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 are properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions;
- Evaluated Yolo 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 Yolo court’s documentation and supporting financial record that support the validity of recorded revenues, expenditures, and fund balances.

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

Revenue Substantive Testing

- Tested revenue transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records;
- Tested individual revenue accounts that exceeded \$200,000, totaling \$2,156,616 out of \$13,571,144, or 15.9%, of the total revenues (see 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	\$ 10,402,991	76.7%	\$ 1,340,990	12.9%
Court Interpreter	719,525	5.3%	147,866	20.6%
MOU Reimbursement	623,072	4.6%	178,841	28.7%
Other Miscellaneous	210,077	1.5%	210,077	100.0%
Grants				
AB 1058 Commissioner/Facilitator	312,879	2.3%	60,061	19.2%
Other Financing Sources				
Enhanced Collections	806,806	6.0%	218,781	27.1%
Other Accounts ¹	495,794	3.6%	-	-
Total Revenues	\$ 13,571,144	100.0%	\$ 2,156,616	

¹ Other accounts not tested included the following: Improvement and Modernization Fund, Judges’ Compensation from State Financing Sources, Other Judicial Council Grants and Non-Judicial Council Grants from Grants, Interest Income, Investment Income, Donations, Local Fees, Non-Fee Revenues, Escheatment, Prior Year Revenue, County Program – Restricted, Reimbursement Other, Sale of Fixed Assets, and Other Miscellaneous of Other Financing Sources.

Expenditure Substantive Testing

- Tested expenditure transactions of the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Codes consistent with the fund’s purpose, properly authorized, adequately supported, and accurately recorded in the accounting records;
- Tested individual expenditure accounts that that exceeded \$200,000, totaling \$1,031,726 of \$13,193,394, or 7.8% of the total expenditures (see table below for percentages of expenditure accounts sampled);

We did not identify any errors in the sample.

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

Expenditure Accounts	Total Expenditures	Percentage Total	Amount Tested	Percentage Tested
Personnel Services				
Salaries – Permanent				
Employees	\$ 5,833,355	44.2%	\$ 238,185	4.1%
Staff Benefits	3,552,848	26.9%	3,059	0.1%
Operating Expenditures and Equipment				
Security Services	342,946	2.6%	81,417	23.7%
Contracted Services	1,866,132	14.2%	298,751	16.0%
Information Technology	282,428	2.1%	55,314	19.6%
Special Items of Expenditures				
Other	515,000	3.9%	355,000	68.9%
Other Accounts ¹	800,685	6.1%	-	-
Total Expenditures	<u>\$ 13,193,394</u>	<u>100.0%</u>	<u>\$ 1,031,726</u>	

¹ Other accounts not tested included the following: Temp Help from Personnel Services, General Expense, Printing, Telecommunications, Postage, Insurance, In-State Travel, Out-of-State Travel, Training, Facility Operations, Utilities, Consulting and Professional Services, Major Equipment, Other Items of Expense from Operating Expenses and Equipment, Grand Jury, Jury Costs, Judgements, Settlements, and Claims, Debt Service, Other from Special Items of Expense, Capital Costs, Internal Cost Recovery, Prior Year Expense Adjustment.

- For Salaries – Permanent Employees, we selected 10 employees out of 114 from a list provided by Yolo court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation to ensure that:
 - Employee time included supervisory approval;
 - Overtime was authorized;
 - Regular earnings were supported by the Salary Resolution; and
 - Regular earnings tied back to the general ledger;

- For Staff Benefits, we selected the same 10 employees out of 114 from a list provided by Yolo court for one pay period in October 2016 and one pay period in April 2017, and reconciled the amounts to supporting documentation and the general ledger; and
- For Operating Expenses and Equipment, and Special Items of Expenditures, we judgmentally sampled a minimum of 10% of the selected expenditure accounts consisting of large dollar amounts, and traced them to supporting documentation.

Fund Balance Substantive Testing

- We 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 on the legal/budgetary basis of accounting and maintained in accordance with fund accounting principles (see table below for transaction summary by fund);
- We verified the accuracy of individual fund balances in Yolo court’s financial supporting documentation; and
- We recalculated sampled funds to ensure fund balances as of June 30, 2017, are accurate and in compliance with applicable criteria.

We did not identify any errors in the sample.

The following table identifies changes in fund balances:

	Special Revenue Fund			Capital Projects Fund	Total
	General Fund	Non-Grant	Grant		
Beginning fund balance	\$ 184,613	\$ 447,629	\$ -	\$ 272	\$ 632,514
Revenues	12,355,897	892,610	322,636	-	13,571,143
Expenditures	(11,899,891)	(859,136)	(434,367)	-	(13,193,394)
Transfers In	-	-	111,731	-	111,731
Transfers Out	(111,731)	-	-	-	(111,731)
Ending fund balance	<u>\$ 528,888</u>	<u>\$ 481,103</u>	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ 1,010,263</u>

We conducted this performance audit under the authority of GC section 77206(h). We did not audit Yolo court’s financial statements. 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 Yolo court’s internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit Yolo court’s financial statements.

Conclusion

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

- Inadequate internal controls over the cash-handling process;
- Inadequate segregation of duties over the mail verification and posting process;
- Inconsistent adherence to procurement policies and procedures; and
- Inadequate internal controls for review and approval of expenditure processing.

**Views of
Responsible
Officials**

We issued a draft audit report on May 7, 2018. Joni James, Senior Accountant, responded by email on May 10, 2018, agreeing with the audit results. This final audit report includes Yolo court's response in the Findings and Recommendations section.

Restricted Use

This final report is solely intended for the information and use of Yolo court, 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.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

May 16, 2018

Findings and Recommendations

FINDING 1— Inadequate internal controls over cash handling process

Yolo 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 observed during the walk-through that money bags were unsecured during the cash handling procedure. Management does not routinely monitor the cash controls. Money bags are collected from the safe by management and are left on a table for cashiers to collect, resulting in a break in the chain of custody, and leaving the money bags vulnerable to theft.

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 Yolo court staff work more effectively in complying with governing statutes and procedures.

Recommendation

We recommend that Yolo court strengthen its control over the cash handling process to ensure the proper reporting of revenues on the financial statements.

Court Response

The Court agrees that controls over the clerk cash bags can be strengthened. The day in question, though, was an isolated incident involving the morning start up procedures with limited cash in the bags. The bags were set out in an employee only area for the authorized employees to retrieve. After retrieval, the bags were counted and verified by two people. Any irregularities would have been immediately discovered during the counting process. The Court has provided additional instruction to the individuals responsible for the oversight of the bags, specifically requiring that all bags remain under control of authorized persons at all times when not locked away. The Court Fiscal Division logs the return of all cash bags at the end of each business day and periodically performs surprise observation audits to ensure the procedures are consistently followed.

FINDING 2— Inadequate segregation of duties over the mail verification and posting process

Yolo court does not have adequate segregation of duties within its mail verification and posting process.

Through discussions with Yolo court staff and walk-through testing, we found that the same staff members performed the following conflicting duties:

- Logged and verified payments received in the mail; and
- Posted verified payments into the Court’s financial system.

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.

Adequate segregation of duties provide a stronger system of internal control that reduces opportunities for fraud and error. Adequate segregation of duties includes having separate processes performed by different individuals at various stages of a transaction and independent reviews of work performed.

Inadequate segregation of duties and compensating controls have a pervasive effect on the mail verification and posting process by impairing the effectiveness of other controls by rendering their design ineffective or by keeping them from operating effectively.

Recommendation

We recommend that Yolo court establish internal policies and procedures to implement segregation of duties or other compensating methods to mitigate the conflicting duties over mail processing.

Court Response

The Court agrees that for a strong system of internal controls we should have segregation of duties, specifically, different individuals performing mail payment log/verification, and posting payments into the Court's financial system. Due to the courts limited staffing, this has not been achievable. Because of this, the Court's Fiscal Division compares the daily log noting the staff preparing the report and verifies the payments are posted into the financial system. The Court has made the recommended modifications but this will delay payments being posted into the financial system.

FINDING 3— Inconsistent adherence to procurement policies and procedures

Yolo court staff did not consistently follow procurement policies and procedures to ensure effective management controls over the purchase order process.

We tested all seven procurement transactions initiated during the audit period. For one of the transactions tested, Yolo court had not obtained three bids for a purchase between \$500 and \$5,000.

The Trial Court Financial Policies and Procedures Manual (section 6.01, subsection 6.5.2), states:

- For procurements exceeding a value of \$500 but are less than \$5,000, Yolo court should obtain at least three bids from qualified bidders by telephone, fax, or through the Internet;
- The procurement of necessary goods and services should be conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice; and
- All procurement actions should be planned, implemented, and administered under clear and concise procurement guidelines.

Recommendation

We recommend that Yolo court comply with the policies and procedures in the Trial Court Financial Policies and Procedures Manual to ensure fairness, efficiency, and security in the purchase order process.

Court Response

The Court agrees that it did not obtain three bids for a purchase of \$503. Procurement staff did get two bids from the local vendors that could match the existing pieces already in place. The least costly was selected for the procurement. Procurement staff have been provided additional instruction on the proper procedures to follow and where to obtain additional guidance if questions arise.

**FINDING 4—
Inadequate internal
controls for review
and approval of
expenditure
processing**

Yolo court does not have adequate internal controls for review and approval of expenditure processing.

We tested \$1,031,726 (or 7.8%) of the total expenditures. Our audit found that:

- Yolo court entered an incorrect invoice amount in the general ledger in one instance, and
- Appropriate signature approvals were missing from expenditure transactions in one instance.

The Trial Court Financial Policies and Procedures Manual (section 2.01, subsection 6.4), states, in part, “1. Each trial court shall document its financial activities and maintain sufficient accounting records to: a. Ensure that all transactions are properly and accurately recorded.”

The Trial Court Financial Policies and Procedures Manual (section 1.03, subsection 6.4), states, in part, “2. An effective system of internal review includes, but is not limited to.... c. Independent review and approval of transactions by supervising or managing personnel.”

Compliance with trial court accounting practices helps ensure the accurate reporting of all transactions.

Recommendation

We recommend that Yolo court comply with the policies and procedures in the Trial Court Financial Policies and Procedures Manual to ensure adequate controls for review, approval, and accurate recording of expenditures.

Court Response

The Court agrees that it entered an incorrect invoice amount in the financial system as a yearend accrual. However, the error was discovered prior to payment of the invoice, and the correct payment amount was remitted to the vendor. The Court also agrees that appropriate signature approval was missing on one invoice. Court staff have been provided additional instruction for reviewing invoices to ensure correct amounts are noted and approvals are present prior to entry in the financial system.

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