



**JUDICIAL BRANCH
ANNUAL AUDIT PLAN
Fiscal Year 2019-20**



JUDICIAL COUNCIL
OF CALIFORNIA
AUDIT SERVICES

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BACKGROUND

The Audit Committee

The Judicial Council amended Rule of Court, rule 10.63 in July 2017, establishing the “Advisory Committee on Audits and Financial Accountability for the Judicial Branch” (audit committee). The Judicial Council has tasked the audit committee with advising and assisting the Judicial Council in performing its responsibilities to ensure that the fiscal affairs of the judicial branch are managed efficiently, effectively, and transparently. The committee’s audit-specific responsibilities include¹:

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

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

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

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

Purpose of the Annual Audit Plan

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

Audit Services’ Role

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

The Role of External Audit Agencies

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

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

State Auditor – performs the following audits:

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

State Controller’s Office – performs the following audits:

- Audits of Judicial Council and superior courts’ revenues, expenditures and fund balance. [Govt. Code, Section 77206]
- Audits of criminal fine and fee revenue collection and distributions by the superior courts. [Govt. Code 68101- 68104]

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

ANNUAL AUDIT PLAN

Risk Assessment Background

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

- Operational Risk – The risk that the court’s strategic business objectives or goals will not be accomplished in an effective or efficient manner.
- Reporting Risk – The risk that financial or operational reporting is not relevant or reliable when used for internal decision-making or for external reporting. (Examples of external reporting include the Judicial Council and the courts’ financial reporting to the SCO or a court’s reporting of case filing data to the Judicial Council through JBSIS.)
- Compliance Risk – The risk of not complying with statutory requirements or the policies promulgated by the Judicial Council (such as the requirements found in the *Trial Court Financial Policies and Procedures Manual* (FIN manual), Judicial Branch Contracting Manual, or other Judicial Council policies).

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

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

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

Court, rule 10.601, also emphasizes the decentralized management of superior court resources and affirms each superior court's authority to manage their day-to-day operations with sufficient flexibility. Audit Services will consider auditing operational risk areas where courts have local discretion only when asked to do so by the superior court's presiding judge or court executive officer and provided that sufficient audit staff resources are available.

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

Risk Areas, Assessed Level of Risk, and Auditing Entities

Audit Services used its professional judgment when identifying areas of risk (and associated risk levels) when determining the scope of its audits of the superior and appellate courts. Specifically, Audit Services considered the significance of each risk area in terms of the likely needs and interests of an objective third party with knowledge of the relevant information, as well as a risk area's relevance or potential impact on judicial branch operations or public reputation. The risk areas assessed are shown in Table 1 below. The table also reflects statutorily-mandated audits performed by the State Auditor and State Controller's Office, which further contribute to accountability and public transparency for the judicial branch. When assigning risk levels, Audit Services generally considered the complexity of the requirements in a given risk area and its likely level of importance or significance to court professionals, the public, or the Legislature. Areas designated as high risk were generally those with complex requirements (such as criminal fine and fee distributions). In other cases, high risk areas were those where the internal control requirements may not be complex but the incentives to circumvent those controls or to rationalize not having them in the first place is high (i.e. cash handling). Areas of medium risk generally included those risk areas where the complexity of the requirements were low to moderate, but the reputational risk resulting from any significant audit findings would be moderate to high.

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

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

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

Audit Scope and Adjustments for Fiscal Year 2019-20

Audit Services does not plan to make any significant adjustments to audit scope for fiscal year 2019-20. Based on the risk areas listed in Table 1, Audit Services' audits of the superior courts will continue to focus on evaluating compliance in the following key areas:

- Cash handling procedures at the superior courts (per FIN 10.02)
- Competitive and non-competitive procurement practices (per the JBCM)
- Vendor payment authorization and invoice matching (per FIN 8.01)
- Criminal fine and fee revenue distributions (per state law)
- JBSIS data accuracy for reported case filings (per JBSIS data quality standards)

Based on our audit work from the prior fiscal year, the superior courts continue to have difficulties demonstrating consistent compliance with the FIN Manual's rules and suggested controls for cash handling, particularly in the areas of: processing payments received by mail; end-of-day closeout procedures; and control over handwritten receipts and the change fund. To help highlight these areas of risk, Audit Services issued an audit advisory on cash handling procedures in November 2018 (Audit Advisory #2018-2). In the area of JBSIS reporting, Audit Services continues to encounter superior courts that have difficulties providing complete lists of cases that correspond to the counts of case filings they reported to JBSIS. Superior courts are not required under current rules to retain listings of which cases it reported and when—and instead often attempt to reconstruct case listings data for audit purposes that are often incomplete—thus complicating efforts to identify and review case files to evaluate compliance with JBSIS' numerous case-type definitions. The audit committee's April 2018 letter to the Court Executives Advisory Committee highlighted the need for the tracking of case numbers (or other case-specific identifiers) to facilitate the verification of JBSIS data. This is an issue that remains unaddressed in the recently-adopted JBSIS Data Quality Standards.

Table 2 below illustrates the scope items planned for superior courts in fiscal year 2019-20, along with information on the frequency of reported audit findings in the prior year.

Table 2 – Standard Audit Scope Areas, Superior Courts – Audit Results at a Glance

Areas and Sub-Areas Subject to Review		In Scope for FY 19-20?	Audit Findings from Prior Year	
			# of Findings in FY 18-19	Common Compliance Issues
Cash Handling				
1	Daily Opening Process	Yes	3	
2	Voided Transactions	Yes	1	
3	Handwritten Receipts	Yes	8	Limited control / tracking of issued receipt books
4	Mail Payments	Yes	20	Single person processes mail; no log tracking payments received
5	Internet Payments	Yes	0	
6	Change Fund	Yes	7	No verification of balance, no single custodian responsible
7	End-Of-Day Balancing and Closeout	Yes	8	Supervisor doesn't verify balance with clerk; no blind close
8	Bank Deposits	Yes	3	
9	Other Internal Controls	Yes	8	Various; limited control over access to safe and combinations
Procurement and Contracts				
10	Procurement Initiation	Yes	4	
11	Authorization & Authority Levels	Yes	0	
12	Competitive Procurements	Yes	2	
13	Non-Competitive Procurements	Yes	0	
14	Leveraged Purchase Agreements	Yes	0	
15	Contract Terms	Yes	1	
16	Other Internal Controls	Yes	2	
Payment Processing				
17	3-Point Match Process	Yes	1	
18	Payment Approval & Authority Levels	Yes	1	
19	Special Rules - In-Court Service Providers	Yes	2	
20	Special Rules - Court Interpreters	No		Audit Committee suspended review pending policy change
21	Other Items of Expense	Yes	0	
22	Jury Expenses	Yes	1	
23	Allowable Costs	Yes	0	
24	Other Internal Controls	Yes	0	
Fine & Fee Distributions				
25	CMS-Calculated Distributions	Yes	3	
26	Manually-Calculated Distributions	Yes	0	
1% Fund Balance Cap				
27	Calculation of the 1% Cap	Yes	4	
28	Use of "Held on Behalf" Funds	Yes	0	
JBSIS Case Filing Data				
29	Validity of JBSIS Data	Yes	11	JBSIS case definitions not followed; variances between reported counts of case filings and the court's corresponding case listings

Audit Services will also continue to focus on completing audits under the Judicial Council’s Court Innovations Grant (CIG) program. These grant-specific audit reports will be completed as resources are available, and the selection of which specific courts and projects to audit will be informed by discussions with the Judicial Council’s Special Projects Unit, which administers the CIG program. The CIG program is a high-risk program given both the significant dollars involved (\$25 million appropriated in fiscal year 2016-17) and the Legislature’s expectation that the courts receiving these funds will report performance outcomes. The courts’ unexpended CIG

funds, if any, will revert to the State's General Fund after June 30, 2020. Audit Services anticipates significant CIG spending in fiscal year 2019-20 given the relatively modest pace of spending in prior years.

Available Staff Resources and Audit Scheduling

Audit Services has two units—an Internal Review Team and a Court Audit Team—that each focus on distinct areas of work. The Court Audit Team currently consists of two senior auditors and four audit staff, who are split into two different sub-teams. The Court Audit Team's focus at each court is based on the risk areas noted in Table 1 above and the related scope areas noted in Table 2. The Internal Review Team has more limited staffing, with one senior auditor and one staff auditor based in San Francisco. This team generally focuses on performing periodic internal reviews as directed by the Judicial Council's executive management team. The Internal Review Team also investigates whistleblower complaints and performs non-recurring or targeted reviews of judicial branch programs that may affect multiple courts (such as the planned audits under the CIG program). Based on the available staff resources shown in Table 3 below, Audit Services estimates that it has roughly 7,800 available hours for audit activities of the appellate and superior courts for fiscal year 2019-20, which does not include the roughly 2,600 hours the Internal Review Team has reserved for internal reviews and auditing court compliance under the *Court Innovations Grant Program*.

The timeframes shown in Table 3 for Audit Services' schedule of court-specific audits are high-level estimates and are intended to depict the time between the start of the audit (i.e. the entrance conference) to the substantial completion of fieldwork and the delivery of any findings to the court's management for their official comment. Audit Services will provide each court with a reasonable period of time—up to three weeks—to provide its official response and corrective action plan before making preparations to share the report with the audit committee. As a result, final audit reports may come to the audit committee about a month after the anticipated timeframes shown in the table.

Table 3 – Available Staff Resources and Audit Schedule (Fiscal Year 2019-20)

	Fiscal Year 2019-20													Total
	July	August	September	October	November	December	January	February	March	April	May	June		
Monthly Working Days	22	22	22	22	22	22	22	21	22	22	21	22	262	
Available Monthly Hours	176	176	176	176	176	176	176	168	176	176	168	176	2,096	
Judicial Branch Holidays	(8)		(8)	(8)	(24)	(8)	(16)	(16)	(8)		(8)		(104)	
Estimated Personal Leave	(40)		(8)		(24)	(80)	(40)					(40)	(232)	
Available Hours Per Auditor	128	176	160	168	128	88	120	152	168	176	160	136	1,760	
Administrative Time	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(30)	
Training	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(42)	
Travel (Two Round Trips / Month)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(32.0)	(384)	
Non-Audit Hours	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(456)	
Available Audit Hours Per Auditor	90	138	122	130	90	50	82	114	130	138	122	98	1,304	
# of Audit Staff	8	8	8	8	8	8	8	8	8	8	8	8	8	
Total Available Audit Hours	720	1,104	976	1,040	720	400	656	912	1,040	1,104	976	784	10,432	
Court Audit Team #1	270	414	366	390	270	150	246	342	390	414	366	294	3,912	
Court Audit Team #2	270	414	366	390	270	150	246	342	390	414	366	294	3,912	
Internal Review Team	180	276	244	260	180	100	164	228	260	276	244	196	2,608	

	Fiscal Year 2019-20											
	July	August	September	October	November	December	January	February	March	April	May	June
Judicial Council - Audit Services												
Court Audit Team #1	Tehama		San Mateo				San Diego				Shasta	
	Modoc										1st DCA	
Court Audit Team #2	Trinity		Lassen				Napa					
	Sierra						2nd DCA				Plumas	
Internal Review Team	Internal Reviews / Court Innovations Grants											
State Controller's Office	Audit of Trial Court Revenues, Expenditures & Fund Balance - GC 77206(h) [8 superior courts]											
	Trial Court Fine & Fee Revenue Distribution Audits - GC 68103											
State Auditor's Office	Judicial Council Procurement Audit - PCC 19210(c)											
	CAFR - Statewide Financial Statement Audit of FY 2018-19 (all State Agencies)											

Note: The court audits scheduled in this table are subject to change based on: each court's availability; Audit Services' resources; and changing audit priorities based on risk. The audit committee may also reprioritize audits and modify the audit schedule as it deems necessary.

Schedule of Court Audits

Courts that are not scheduled for an audit this fiscal year may appear in next year's annual audit plan. Table 4 on the following page shows all 6 appellate courts and 58 superior courts, listed by the time elapsing since its previous audit. Elapsed time will always be a significant consideration for Audit Services when scheduling audits, but other factors (such as location and court size) will also be considered so as to maximize the number of audits that can be completed each year.

Table 4 – Schedule of Previous and Planned Appellate and Superior Court Audits

Appellate / Superior Court	Date of Last Audit Report	(Current Plan) (Next Year)		Appellate / Superior Court	Date of Last Audit Report
		FY 2019-20	FY 2020-21		
1st DCA	N/A	X		23. Mendocino	July-13
2nd DCA	N/A	X		58. Yuba	August-13
6th DCA	N/A		Y	21. Marin	October-13
25. Modoc	January-10	IP		51. Sutter	November-13
53. Trinity	April-10	IP		20. Madera	June-14
52. Tehama	June-10	X		29. Nevada	July-14
41. San Mateo	September-10	X		17. Lake	August-14
18. Lassen	November-10	X		40. San Luis Obispo	December-14
46. Sierra	November-10	X		36. San Bernardino	January-15
32. Plumas	January-11	X		57. Yolo	February-15
45. Shasta	January-11	X		54. Tulare	July-15
28. Napa	March-11	X		16. Kings	October-15
3. Amador	April-11		Y	12. Humboldt	December-15
9. El Dorado	April-11		Y	7. Contra Costa	February-16
37. San Diego	April-11	X		10. Fresno	June-16
39. San Joaquin	April-11		Y	15. Kern	August-16
49. Sonoma	April-11		Y	31. Placer	October-17
2. Alpine	July-11		Y	24. Merced	January-18
14. Inyo	July-11		Y	4. Butte	April-18
13. Imperial	August-11		Y	3rd DCA	May-18
33. Riverside	October-11		Y	48. Solano	June-18
43. Santa Clara	December-11		Y	6. Colusa	June-18
22. Mariposa	January-12			5. Calaveras	June-18
55. Tuolumne	February-12			47. Siskiyou	October-18
26. Mono	March-12			56. Ventura	December-18
50. Stanislaus	April-12			34. Sacramento	December-18
8. Del Norte	September-12			5th DCA	February-19
42. Santa Barbara	November-12			11. Glenn	February-19
27. Monterey	December-12			4th DCA	March-19
30. Orange	December-12			35. San Benito	June-19
19. Los Angeles	February-13			38. San Francisco	June-19
1. Alameda	March-13			44. Santa Cruz	June-19

Notes:

"IP" = In progress

"X" = Scheduled for audit in current year's audit plan

"Y" = Tentative for audit in next year's audit plan