



**Audit of the
Superior Court of California,
County of Tehama**

FEBRUARY 2020



JUDICIAL COUNCIL
OF CALIFORNIA

AUDIT SERVICES

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Superior Court of California, County of Tehama

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EXECUTIVE SUMMARY

Introduction

Government Code sections 77206(g) and 77009(h) provide the Judicial Council of California (Judicial Council) with the authority to inspect and review superior court records and to perform audits, reviews, and investigations of superior court operations. The Judicial Council's Office of Audit Services (Audit Services) periodically conducts performance audits of the superior courts in order to verify their compliance with the Judicial Council's policies and with state law. These audits, as well as similar audits of the appellate courts, are primarily focused on assisting the courts identify which of their practices, if any, can be improved upon to better promote sound business practices and to demonstrate accountability for their spending of the public's funds.

State law authorizes the Judicial Council to establish each superior court's annual budget and to adopt rules for court administration, practice, and procedure. Most of the criteria used by Audit Services stems from the policies promulgated by the Judicial Council, such as those contained within the *Trial Court Financial Policies and Procedures Manual* (FIN Manual) and the *Judicial Branch Contracting Manual* (JBCM). These policies establish both mandatory requirements that all superior courts must follow, as well as suggestive guidance. California's courts drastically vary in terms of their caseloads, budget, and staffing levels, thus requiring the Judicial Council to adopt rules that at times provide the courts with flexibility given their varying resources and constraints. State law also requires the superior courts to operate under a decentralized system of management, and the Judicial Council's policies establish the boundaries within which courts exercise their discretion when managing their day-to-day operations.

Audit Services' annual audit plan for the Judicial Branch establishes the scope of each audit and provides a tentative schedule for the courts being audited during the fiscal year. The audit plan explains those scope areas deemed to be of higher risk based on Audit Services' professional judgment and recognizes that other state audit agencies may, at times, perform reviews that may overlap with Audit Services work. In those instances, Audit Services may curtail its planned procedures as noted in the scope and methodology section of this report.

Summary of Audit Results

Our audit found that the Superior Court of California, County of Tehama (Court) demonstrated consistent compliance with most of the Judicial Council's requirements evaluated during the audit. In addition, the Court should be commended for taking prompt corrective actions that, according to its responses, already have or will remedy all of our findings by December 1, 2019. Table 1 below presents a summary of the audit's results, including references to any audit findings discussed in the body and a summary of the Court's agreement or disagreement with the noted findings. Other matters such as isolated or minor non-compliance—which in our professional judgement do not rise to the level of a reportable finding—were communicated separately to the Court's management in written form.

Table 1 Audit Results – At A Glance – California Superior Court, County of Tehama

| Areas and Sub-Areas Subject to Review | | Tested | Reportable Audit Findings | | |
|---------------------------------------|--|--------|---------------------------|----------------------|--------------|
| | | | # of Findings | Finding Reference(s) | Court's View |
| Cash Handling | | | | | |
| 1 | Daily Opening Process | Yes | ✓ | | |
| 2 | Voided Transactions | Yes | ✓ | | |
| 3 | Manual Receipts | Yes | ✓ | | |
| 4 | Mail Payments | Yes | ✓ | | |
| 5 | Internet Payments | Yes | ✓ | | |
| 6 | Change Fund | Yes | ✓ | | |
| 7 | End-Of-Day Balancing and Closeout | Yes | ✓ | | |
| 8 | Bank Deposits | Yes | ✓ | | |
| 9 | Other Internal Controls | Yes | ✓ | | |
| Procurement and Contracts | | | | | |
| 10 | Procurement Initiation | Yes | 1 | 2019-10-01 | Agree |
| 11 | Authorization & Authority Levels | Yes | ✓ | | |
| 12 | Competitive Procurements | Yes | ✓ | | |
| 13 | Non-Competitive Procurements | Yes | 1 | 2019-13-01 | Agree |
| 14 | Leveraged Purchase Agreements | Yes | ✓ | | |
| 15 | Contract Terms | Yes | ✓ | | |
| 16 | Other Internal Controls | Yes | ✓ | | |
| Payment Processing | | | | | |
| 17 | 3-Point Match Process | Yes | 1 | 2019-17-01 | Agree |
| 18 | Payment Approval & Authority Levels | Yes | ✓ | | |
| 19 | Special Rules - In-Court Service Providers | Yes | ✓ | | |
| 20 | Special Rules - Court Interpreters | N/A | - | | |
| 21 | Other Items of Expense | Yes | ✓ | | |
| 22 | Jury Expenses | Yes | ✓ | | |
| 23 | Allowable Costs | Yes | ✓ | | |
| 24 | Other Internal Controls | Yes | ✓ | | |
| Fine & Fee Distributions | | | | | |
| 25 | CMS-Calculated Distributions | Yes | ✓ | | |
| 26 | Manually-Calculated Distributions | N/A | - | | |
| 1% Fund Balance Cap | | | | | |
| 27 | Calculation of the 1% Cap | Yes | ✓ | | |
| 28 | Use of "Held on Behalf" Funds | Yes | ✓ | | |
| JBSIS Case Filing Data | | | | | |
| 29 | Validity of JBSIS Data | Yes | ✓ | | |
| Other Areas | | | | | |
| 30 | [None] | N/A | - | | |

Source: Auditor generated table based on testing results and court management's perspective.

Note: Areas subjected to testing are generally based on requirements in the Trial Court Financial Policies and Procedures Manual, the Judicial Branch Contracting Manual, or California Rules of Court, but may also include other Judicial Council policies and directives. Areas not tested are based on audit determinations—such as area not applicable, recently reviewed by others, or no transactions selected to review—which are described more fully in the Audit Scope and Methodology section of the report. Applicable criteria are cited in each audit finding (as referenced above) in the body of our report. The Judicial Council's audit staff determine the scope of each audit based on their professional judgment and the needs of the Judicial Council, while also providing the Court with an opportunity to highlight additional areas for potential review depending on available audit resources.

The Court demonstrated consistent adherence to most of the different compliance requirements evaluated during the audit, as shown in Table 1. In particular, the Court demonstrated strong compliance in the areas of cash handling, fine and fee distributions, and JBSIS case filing data. For example, with regards to the area of cash handling, which includes the collection of various types of payments such as cash, checks, and credit cards, the Court demonstrated sound management practices especially with processing mail payments, end-of-day balancing and closeout, and preparing bank deposits. Similarly, our review found that its CMS-calculated fine and fee distributions were sound. Specifically, the Court designates an individual responsible for managing and maintaining the CMS distribution tables, promptly revises its CMS distribution tables when needed to reflect changes in statute or local ordinances, and after revising the CMS distribution tables it tests the CMS fine and fee calculations and distributions to ensure the revisions correctly reflect the changes in statute or local ordinances.

Nonetheless, our audit did identify three reportable audit findings where we believe the Court should consider taking corrective action to improve its operations and more fully comply with the Judicial Council's policies. These three findings are identified in Table 1 under the column "Reportable Audit Findings" and include reference numbers indicating where the reader can view in further detail the specific findings and the Court's perspective. One particular area of focus for the Court as it considers opportunities for improvement should include strengthening its controls over the required three-point-match verification process when paying invoices and claims. Specifically, the Court could not demonstrate how it matched and agreed the invoices or claims to proof that the Court received and accepted some goods or services. In addition, it did not demonstrate how it matched and agreed the invoices or claims to the terms in an applicable contract or equivalent court authorization for some transactions. When the Court does not require its staff to verify that it received the goods or services for which it is being billed, it risks paying for unnecessary items or costs. Furthermore, without written agreements or authorizations that specify the expected work, term, and pay, court accounts payable staff cannot fully perform the required three-point match. As a result, the Court risks paying for unauthorized goods or services or being overcharged without any basis for disputing such work or charges. The Court indicated it agreed with our finding and recommendation in this area and it will implement corrective action no later than December 1, 2019 to strengthen its controls over processing invoices.

Summary Perspective of Court Officials

Audit Services initiated its audit of the Court on July 16, 2019, and completed its fieldwork on September 30, 2019. Audit Services shared the draft audit findings with the Court's officials starting on October 4, 2019, and received its final official responses on October 28, 2019. The Court agreed with the findings. Its specific responses are included in the body of the report after each finding.

BACKGROUND ON THE COURT'S OPERATIONS

The Superior Court of California, County of Tehama (Court) operates one court facility in the city of Red Bluff. The Court operates under the authority and direction of the Presiding Judge, who is responsible for ensuring the effective management and administration of the Court, consistent with any rules, policies, strategic plan, and the funding provided by the Judicial Council.

California's 58 superior courts each have differing workloads, staffing levels, and financial resources. They operate under a decentralized system of governance and are each responsible for their own local court operations and business decisions. The Presiding Judge has the authority to: develop a local budget and allocate the funding provided by the Judicial Council; approve procurements and contracts; and authorize the Court's expenditures. The information in Table 2 is intended to provide the reader with context and perspective on the Court's relative size and workload compared to averages of all 58 superior courts.

Table 2 – Statistical Data for Tehama Superior Court and Average of all Superior Courts

| Statistic | Tehama Superior Court | Average of All Superior Courts | | | | |
|---|-----------------------|--------------------------------|-----------------------|------------------------|------------------------|------------------------|
| | | Cluster 1 Courts | Cluster 2 Courts | Cluster 3 Courts | Cluster 4 Courts | All 58 Courts |
| Financial Highlights (Fiscal Year 2018-19) | | | | | | |
| Total Revenue | \$ 5,581,088 | \$ 2,535,365 | \$ 11,735,803 | \$ 45,358,637 | \$207,404,531 | \$ 46,675,217 |
| Total Expenditures | \$ 5,854,606 | \$ 2,418,934 | \$ 11,481,612 | \$ 44,497,615 | \$206,076,586 | \$ 46,164,485 |
| Staff Salaries & Benefits As a % of Total Expenditures | \$ 4,113,795 70.3% | \$ 1,566,182 64.7% | \$ 8,436,099 73.5% | \$ 33,940,458 76.3% | \$167,723,925 81.4% | \$ 36,653,237 79.4% |
| Judicial Officers and Staff (2019 Court Statistics Report) | | | | | | |
| Judges | 4 | 2 | 8 | 27 | 129 | 29 |
| Commissioners/Referees | - | - | 1 | 4 | 20 | 5 |
| Non-Judicial Staff (approx.) | 37 | 16 | 85 | 289 | 1,268 | 293 |
| Total | 41 | 18 | 94 | 320 | 1,417 | 327 |
| New Case Filings (Fiscal Year 2017-18) | | | | | | |
| Appeal Filings | 55 | 8 | 81 | 190 | 386 | 132 |
| Civil Filings | | | | | | |
| Civil | 905 | 318 | 2,291 | 9,805 | 67,700 | 13,485 |
| Family Law | 1,031 | 284 | 1,777 | 6,347 | 26,237 | 6,132 |
| Juvenile Delinquency | 113 | 36 | 230 | 1,052 | 2,050 | 632 |
| Juvenile Dependency | 151 | 34 | 209 | 574 | 3,545 | 757 |
| Mental Health | 98 | 14 | 153 | 731 | 2,947 | 670 |
| Probate | 146 | 51 | 284 | 972 | 3,646 | 888 |
| Small Claims | 337 | 72 | 413 | 1,963 | 13,845 | 2,730 |
| Criminal Filings | | | | | | |
| Felonies | 866 | 419 | 1,634 | 4,649 | 32,109 | 6,672 |
| Misdemeanors / Infractions | 12,684 | 5,214 | 23,304 | 80,405 | 359,763 | 82,649 |
| Total | 16,386 | 6,450 | 30,376 | 106,688 | 512,228 | 114,747 |

Source: Financial and case filings data maintained by the Judicial Council. The date ranges differ for the above information due to the different sources of data. The financial data is from the Judicial Council's Phoenix financial system, the judicial officer and staff counts are from the most recent Court Statistics Report, and the case filing counts are from the Judicial Branch Statistical Information System data as of August 15, 2019, and may not agree with other reports as this data is continuously updated.

Note: The Judicial Council generally groups superior courts into four clusters and uses these clusters, for example, when analyzing workload and allocating funding to courts. According to past Judicial Council documents, the cluster 1 courts are those superior courts with between 1.1 and 4 judicial position equivalents (JPEs), cluster 2 courts are those with between 4.1 and 20 JPEs, cluster 3 courts are those with between 20.1 and 59.9 JPEs, and cluster 4 courts are those with 60 or more JPEs. Tehama Superior Court is a cluster 1 court.

AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of Tehama (Court) in order to determine whether it complied with certain key provisions of statute and the policies and procedures adopted by the Judicial Council of California. Our audit was limited to evaluating compliance with those requirements that, in our professional judgment, were necessary to answer the audit’s objectives. The period covered by this audit was generally limited to fiscal year (FY) 2018-19, but certain compliance areas noted below required that we review earlier periods or current practices. Table 3 lists the specific audit objectives and the methods we used to address them.

Table 3 – Audit Objectives and the Methods Used to Address Them

| | Audit Objective | Method |
|---|--|---|
| 1 | Through inquiry, auditor observation, and review of local court policies and procedures, identify areas of high risk to evaluate the Court’s compliance. | Audit Services developed an annual audit plan generally identifying areas of high risk at the superior courts. At the Court, we made inquiries and reviewed any local procedures to further understand its unique processes in each compliance area. |
| 2 | <p>Determine whether the Court implemented adequate internal controls over its handling of cash receipts and other payments. Such a review will include, at a minimum, the following:</p> <ul style="list-style-type: none"> ▪ Determine whether the Court complied with the mandatory requirements in the FIN manual for internal controls over cash (payment) handling. ▪ Assess the quality of the Court’s internal controls to minimize the potential for theft, such as controls over the use of manual receipts and voided transactions. | We obtained information from the Court regarding the types and average volume of collections at each of its payment collection locations. For selected locations, we observed the Court’s practice for safeguarding and accounting for cash and other forms of payments from the public. For example, we reviewed and observed the Court’s practice for appropriately segregating incompatible duties, assigning cash drawers to cashiers at the beginning of the day, reviewing and approving void transactions, safeguarding and accounting for handwritten receipts, opening and processing mail payments, controlling access to change funds, overseeing the end-of-day balancing and closeout process, and preparing and accounting for the daily bank deposits. |
| 3 | Determine whether the Court demonstrated appropriate control over its non-personal services spending activities. Specifically, our review included the following: | We reviewed the Court’s assignment of purchasing and payment roles to assess whether it appropriately segregated staff roles for approving purchases, procuring the goods or services, |

| | |
|---|---|
| <ul style="list-style-type: none">▪ Determine whether the Court’s procurement transactions complied with the applicable requirements in the Judicial Branch Contracting Manual or the Trial Court Financial Policies and Procedures Manual. ▪ Determine whether the Court’s payment transactions—including but not limited to vendor payments and claim payments—were reasonable and in compliance with the Trial Court Financial Policies and Procedures Manual and applicable Judicial Council policies and rules. | <p>receiving the goods, and paying for the goods or services.</p> <p>We judgmentally selected a sample of 25 procurement transactions and assessed whether each transaction:</p> <ul style="list-style-type: none">• Was properly authorized and approved by authorized court management.• Adhered to competitive bidding requirements, when applicable.• Had contracts, when applicable, that contained certain terms required to protect the Court’s interests. <p>We selected a sample of 40 FY 2018-19 payments pertaining to various purchase orders, contracts, or in-court services, and determined whether:</p> <ul style="list-style-type: none">• The Court followed the 3-point match process as described in the FIN Manual to ensure goods and services are received and accepted, and in accordance with contract terms prior to payment.• Appropriate court staff authorized payment based on the Court’s payment controls and authorization matrix.• The payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810.• The payments to in-court service providers adhered to applicable Judicial Council policies. <p>(Note: We did not review court interpreter claims as the Audit Committee suggested we suspend reviewing these types of claims to allow courts time to develop procedures to address previously reported systemic audit findings related to court interpreter service claims.)</p> |
|---|---|

| | | |
|---|---|---|
| 4 | Determine whether the Court properly calculates fine and fee distributions for certain selected case types. | <p>We reviewed the Court’s process for updating and controlling access to its distribution tables.</p> <p>We also reviewed the Court’s calculations and distributions of fines, penalties, fees, and assessments for certain high volume or complex case types.</p> |
| 5 | <p>Determine whether the Court properly calculates its one percent fund balance cap for the most recent completed fiscal year.</p> <p>Determine whether the Court spent any funds the Judicial Council approved the Court to hold from prior year excess fund balance funds only for the purposes approved by the Judicial Council.</p> | <p>We obtained the Court’s final <i>1% Fund Balance Cap Calculation Form</i> for the most recently completed fiscal year at the time of our testing (FY 2017-18), and performed the following:</p> <ul style="list-style-type: none"> • Verified significant calculations and balance amounts. • Traced and verified significant inputs on the form (such as year-end encumbrances) to supporting records and the Phoenix accounting system. <p>We obtained any Judicial Council-approved request by the Court to hold excess prior year fund balances. To the extent that the Court had and spent any of these held funds, we verified that such spending was limited for the purposes previously approved by the Judicial Council</p> |
| 6 | Determine whether the Court accurately reports case filings data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS). | <p>We obtained an understanding of the Court’s process for reporting case filings data to the Judicial Council through JBSIS. For the most recent fiscal year for which the Judicial Council froze and used JBSIS data for funding allocations (FY 2017-18), we performed the following:</p> <ul style="list-style-type: none"> • Obtained the relevant JBSIS case filings data the Court reported to the Judicial Council and reconciled the case filings counts it reported to its underlying records of cases supporting each reported case filing count, by case type, to validate that the Court accurately reported its case filings count data. |

| | | |
|--|--|--|
| | | <ul style="list-style-type: none">• We selected 10 cases from six case types, for a total of 60 reported cases, and reviewed the relevant case file records to verify that the Court correctly applied the JBSIS definitions for reporting each case filing. |
|--|--|--|

Assessment of Data Reliability

The U.S. Government Accountability Office (GAO) requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. In performing this audit, we obtained and reviewed financial transaction data from the Phoenix financial system—the statewide accounting system used by the superior courts—for the limited purpose of selecting transactions to test the Court’s compliance with its procurement and related payment activities. Prior to making our selections, we independently queried the Phoenix financial system to isolate distinct types of non-personal service expenditure transactions relevant to our testing—such as by general ledger code—and reconciled the resulting extract with the Court’s total expenditures as noted on its trial balance report for the same period. Our analysis noted no material differences leading us to conclude that use of the Phoenix financial transaction data was sufficiently reliable for the limited purpose of selecting transactions for testing.

Report Distribution

The Judicial Council’s *Advisory Committee on Audits and Financial Accountability for the Judicial Branch* reviewed this report on February 10, 2020, and approved it for public release.

California Rules of Court, Rule 10.500 provides for the public access to non-deliberative or non-adjudicative court records. Final audit reports are among the judicial administrative records that are subject to public access unless an exemption from disclosure is applicable. The exemptions under rule 10.500 (f) include records whose disclosure would compromise the security of a judicial branch entity or the safety of judicial branch personnel. As a result, any information meeting the nondisclosure requirements of rule 10.500(f) have been omitted from this audit report.

Audit Staff

This audit was completed by the following staff under the general supervision of Dawn Tomita, Audit Supervisor:

Jerry Lewis, Senior Auditor (auditor in charge)
Veronica Perez, Auditor, CFE
Michelle O’Connor, Auditor, CPA, CFE

SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION

CASH HANDLING

The Court Followed Required Cash Handling Procedures

Background

Trial courts must collect and process customer payments in a manner that protects the integrity of the court and its employees, and promotes public confidence. Thus, trial courts should institute a system of internal control procedures that assure the safe and secure collection, and accurate accounting of all payments. A court's handling of collections is inherently a high-risk activity given the potential incentives for court employees to act inappropriately when mandatory internal controls per the Trial Court Financial Policies and Procedures Manual (FIN Manual) are compromised or not in operation.

Overall, the Court demonstrated compliance in the cash handling areas we evaluated during the audit. For example, the Court demonstrated sound management practices in the areas of its daily opening process, void transactions process, mail payment processing, end-of-day balancing and closeout, and bank deposits process.

PROCUREMENT AND CONTRACTS

The Court Complies with Most Applicable Requirements for Procuring Goods and Services But Can Strengthen Some of Its Procurement Controls

Background

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

The Court demonstrated compliance with most of the procurement areas we evaluated during our audit, including demonstrating sound management practices in the areas of authorization and authority levels, in its use of competitive procurements, and in entering into leveraged purchase agreements. Nevertheless, we identified two audit findings that we believe require the Court's corrective action. The findings pertained to the following specific areas of procurement:

| Finding Reference | Subject |
|-------------------|--|
| 2019-10-01 | Procurement – Initiation |
| 2019-13-01 | Procurement – Noncompetitive Sole Source |

FINDING REFERENCE: 2019-10-01

PROCUREMENT – INITIATION

CRITERIA

JUDICIAL BRANCH CONTRACTING MANUAL, CHAPTER 2, 2.1 FORMULATING THE PROCUREMENT APPROACH, C:

The Buyer's first step in the planning and scheduling of a procurement effort is the initial review of a purchase request. Reviewing the request in terms of the following information will assist the Buyer in determining any impact to the procurement planning and scheduling activities.

1. Internal review and approvals: Consider the following:

- Have the proper approval signatures been obtained to conduct the procurement in conformance with the Judicial Branch Entity's Local Contracting Manual?
- Is the request in compliance with applicable equipment standards?
- Is there documentation in sufficient detail to support and justify conducting the procurement?

FIN MANUAL, FIN 6.01, 6.1 STANDARD PROCUREMENT PROCESS:

1. The procurement process begins with the completion and submittal of a written or electronic purchase requisition to the trial court employee who has been given the responsibility for approving the requisition. This is a separate and distinct process from approving the purchase order or executing the contract. Requisition approval authority may be delegated by organizational structure (e.g., manager of a unit) or by the type of goods or services requested (e.g., equipment or services under \$5,000). The individual who approves the requisition is responsible for assessing the need for the requested good or services and assuring that funds are available in the court's budget and that appropriate account codes are provided for the proposed purchase. See Section 6.3, Purchase Requisition Preparation and Approval for suggested requisition approval.

FIN MANUAL, FIN 6.01, 6.3 PURCHASE REQUISITION PREPARATION AND APPROVAL:

1. A written or electronic purchase requisition is used to initiate all procurement actions. The requestor identifies the correct account code(s) and verifies that budgeted funds are available for the purchase, completes the requisition form, and forwards it to the trial court employee responsible for approving the requisition. After performing an assessment of the need verifying that the correct account code is specified, and assuring that funding is available, the *requisition* is forwarded to the trial court's buyer.

FIN MANUAL, FIN 6.01, 6.10 ADMINISTRATION AND DOCUMENTATION:

2. A properly documented procurement file for purchase orders and/or contracts provides an audit trail from the initiation of the requirement to the delivery of goods. The file provides a complete basis for informed decisions at each step of the acquisition process. A well-documented file also supports the actions taken, provides information for later review and facts in the event of litigation or an investigation (refer to Policy No. FIN 12.01, section 6.3.3). Depending on the nature and value of the procurement, procurement files must contain:
 - a. Approved purchase requisition.

CONDITION

The Court does not consistently document its purchase requisitions to demonstrate that an authorized approver reviewed and approved the purchase request before commencing the solicitation and procurement process. For five of the 25 procurement transactions reviewed, the Court did not always document a purchase request and management approval of the request prior to commencing the procurement. Specifically, three of these procurements, which totaled more than \$16,000—including one purchase of miscellaneous office supplies—did not have a purchase requisition form, and the remaining two procurements had purchase requisitions that were signed and dated after the contract or agreement had already been executed. According to the Court, the CEO and the CFO discuss items to be purchased to support court operations, but its business practices do not require the consistent documentation of these requests and approvals that sometimes may only be verbal. In addition, the Court has assigned the administrative assistant the duty of ordering office supplies, but the Court does not require the administrative assistant to obtain approval prior to placing an order unless someone has requested an expensive or a non-standard item. Not being able to demonstrate the purchase request and approval prior to the procurement and receipt of services occurs partly because the Court does not have local policies and procedures that describe and require a formal purchase request and approval process. The use of a purchase requisition form that describes the requested items, documents the approval to purchase, and that is stored in the procurement file would help the Court better demonstrate that authorized court management considered and approved purchase requests before commencement of the solicitation and procurement process.

RECOMMENDATION

To ensure it can demonstrate that its purchases are appropriately justified, funded, and approved, the Court should take steps to ensure its staff follow the Court's procurement procedures which will ensure the Court consistently obtains and documents in its procurement files the purchase requisitions that document the approved purchase requests prior to its staff starting the purchasing activity.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees that proper documentation should be kept on file for all procurements. The Court will improve its business practices to ensure that written approval is obtained to initiate all procurements and intends to create a procedure and checklist to ensure that all procurement requirements are met.

Response provided on 10/28/2019 by: Kevin Harrigan, Court Executive Officer

Date of Corrective Action: No later than December 1, 2019.

Responsible Person(s): Angie Kiefer, Court Financial Officer

FINDING REFERENCE: 2019-13-01

PROCUREMENT – NONCOMPETITIVE SOLE SOURCE

CRITERIA

FIN MANUAL, FIN 6.01, 6.10 ADMINISTRATION AND DOCUMENTATION:

2. A properly documented procurement file for purchase orders and/or contracts provides an audit trail from the initiation of the requirement to the delivery of goods. The file provides a complete basis for informed decisions at each step of the acquisition process. A well documented file also supports the actions taken, provides information for later review and facts in the event of litigation or an investigation (refer to Policy No. FIN 12.01, section 6.3.3). Depending on the nature and value of the procurement, procurement files must contain:
 - b. Rationale for method of procurement (quotes, sealed bid, proposal, etc.).

FIN MANUAL, FIN 6.01, 6.11.5 SOLE SOURCE PROCUREMENTS:

2. Justification of the rationale for sole source procurements should predate the actual procurement, must be documented thoroughly and carefully in the event an audit or investigation is performed during or after the procurement. Documentation justifying a sole source procurement should include:
 - a. The effort made to solicit competitive bids or proposals, if any.
 - b. A summary outlining the reason for the sole source, based on the allowable exceptions set forth in paragraph 1 above.
 - c. Cost information in sufficient detail to support and justify the cost of the contract as reasonable and fair.
 - d. Cost information for similar services and differences that should be noted and explained.
 - e. Special factors affecting the cost under the contract.
 - f. An explanation of why the trial court believes the cost is appropriate.

CONDITION

The Court did not consistently have its sole source requests approved by an appropriate sole source approver. Specifically, two of the five procurements we reviewed that required a sole source justification were not appropriately approved. The first procurement, a contract for investigator services totaling approximately \$145,000, had a sole source request from the CFO that was not signed. The second procurement was for monitors to display docket information for each courtroom at a total cost of approximately \$11,000. This sole source request was approved by the Assistant CEO/HR Manager, who has the authority to approve purchase requests up to \$10,000 but does not have sole source approval authority. The CFO acknowledges that the sole source documents should be signed by the PJ, Assistant PJ, or CEO, and she stated she was not sure why the appropriate person did not sign these sole source documents. When the Court does not competitively procure services and does not properly approve its requests for conducting non-competitive sole-source procurements, it risks the appearance that it is not seeking to maximize competition to obtain best value.

RECOMMENDATION

The Court should take steps to ensure it documents its justification for not competitively bidding goods or services before continuing with the procurement process.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees that all sole source procurements should be properly documented and will strictly adhere to its existing internal controls and processes going forward.

Response provided on 10/28/2019 by: Kevin Harrigan, Court Executive Officer

Date of Corrective Action: Immediately

Responsible Person(s): Angie Kiefer, Court Financial Officer

PAYMENT PROCESSING

The Court Complied with Applicable Payment Processing Requirements, But Could be More Consistent with the Three-Point Match Requirements

Background

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

The Court demonstrated compliance in most of the payment processing areas we evaluated during our audit. The Court demonstrated sound management practices in the areas of its payment approval and authority levels, special items of expense, and allowable costs. Nevertheless, we identified one audit finding in the payment processing area that we believe requires the Court's corrective action. This finding pertains to the following specific area of payment processing:

| Finding Reference | Subject |
|-------------------|--|
| 2019-17-01 | Payment Processing – Three-Point Match |

FINDING REFERENCE: 2019-17-01

PAYMENT PROCESSING – THREE-POINT MATCH

CRITERIA

FIN MANUAL, FIN 8.01, 6.3.2 DOCUMENT MATCHING:

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

- b. All invoice details, including a description of the goods or services ordered and quantities invoiced must be matched to the details of packing slips, shipping orders, receiving reports, or other forms of acknowledgement of delivery of products or completion of work by an authorized court employee.

CONDITION

For five of the 40 payment transactions reviewed, the Court could not demonstrate completing the entire three-point-match verification process when paying invoices and claims. Specifically, accounts payable staff could not demonstrate how they matched and agreed the invoices or claims to proof that the Court received and accepted the goods or services for three transactions. In fiscal year 2018-19 the Court paid approximately \$83,000 to an attorney it contracted with to provide juvenile dependency counsel services, and \$50,750 and \$37,500 to two other individuals who provided investigator services to the Court. According to the CFO, the Court does not verify whether the services invoiced were actually performed because the Court has agreements with the attorney and the investigators. However, when the Court does not require its staff to verify that it received the goods or services for which it is being billed, it risks paying for unnecessary items or costs. The CFO stated that the Court could have a manager verify that an investigative report was filed for each case listed on the invoice. She also stated that a manager could check the CMS to see whether notes were added in the case event history for juvenile representation. In such a way, the Court could verify that the services listed for each case on the invoice had been received before the Court processes these payments.

In addition, accounts payable staff could not demonstrate how they matched and agreed the invoices or claims to the terms in an applicable contract or equivalent court authorization for two transactions. Specifically, the Court paid \$20,656 to the Tehama County Health Services Agency for services related to a grant. The Court also paid the County Auditor's Office approximately \$21,000 in fiscal year 2018-19 for various administrative services. However, the Court does not have a written MOU or agreement with the County or its departments. According to the CFO, the Court processes the invoices when they are received and reviews the invoices to ensure they contain support for the amount being invoiced. However, without written agreements or authorizations that specify the expected work, term, and pay, court accounts payable staff cannot fully perform the required three-point match. As a result, the Court risks paying for unauthorized goods or services or being overcharged without any basis for disputing such work or charges.

RECOMMENDATION

To ensure that it can demonstrate it pays the proper amounts for the goods and services it receives, the Court should take steps to strengthen its process for approving vendor payments. For instance, the Court should ensure that its accounts payable staff file and retain the purchase agreements and receiving reports they used to perform the three-point match and verify the vendor invoices prior to payment approval and processing.

To ensure that it pays only for the goods or services it receives, and to minimize the risk of paying for unnecessary items or costs, the Court should ensure that staff verify the items and recalculate the costs claimed on court reporter claims. For example, court staff should verify that the Court received the number of pages and folios used to calculate the cost of each transcript prior to approving the court reporter claims for payment.

COURT’S VIEW AND CORRECTIVE ACTION PLAN

The Court agrees that steps should be taken to strengthen its processes and to make documentation clearer. While the specific accounts payable documentation will be dependent upon the actual good or service being considered for payment, documentation will be improved when performing the “three-point match” while processing invoices. As an example, in order to improve upon this documentation, the Fiscal Department will randomly select a few case numbers listed on the submitted invoice and search those case numbers in the case management system. Any documentation found that would back up the completion of services will be printed and attached to the invoice prior to processing the payment.

Response provided on 10/28/2019 by: Kevin Harrigan, Court Executive Officer

Date of Corrective Action: No later than December 1, 2019.

Responsible Person(s): Angie Kiefer, Court Financial Officer

FINE AND FEE DISTRIBUTIONS

The Court's CMS Correctly Calculated Its Fine and Fee Distributions

Background

Trial courts must accurately calculate and distribute the monies they collect so that State and local funds receive the amounts State law designates for each. State statutes and local ordinances govern the distribution of the fines, penalties, fees, and other assessments that courts collect. In addition, courts rely on the State Controller's Office *Trial Court Revenue Distribution Guidelines* and the Judicial Council *Uniform Bail and Penalty Schedules* to calculate and distribute these court collections to the appropriate State and local funds. Courts may use either an automated system, manual process, or a combination of both to perform the often-complex calculations and distributions required by law.

Our review of its fine and fee distributions found that the Court configured its automated case management system (CMS) to accurately calculate and distribute all of the fines, penalties, assessments, and fees collected to the appropriate funds and entities for the code violations we reviewed.

ONE PERCENT FUND BALANCE CAP

The Court Appropriately Supported Its One Percent Fund Balance Cap Calculations

Background

State law allows trial courts to retain unexpended fund balance reserves in an amount that does not exceed one percent of its prior fiscal year operating budget. To assist in ensuring compliance with this requirement, the Judicial Council requires courts to prepare and submit a final *1% Fund Balance Cap Calculation Form* (calculation form) approximately six months after the end of the fiscal year, which calculates the amount of fund balance that a court may carry over into the next fiscal year. Courts self-report the inputs on the calculation form, such as year-end expenditures, expenditure accruals, and encumbrances.

In addition, should a court need to retain funds that exceed its one percent fund balance cap, the Judicial Council adopted a process whereby courts that meet certain specified guidelines may request approval from the Judicial Council to hold excess funds “on behalf of the court.” The request specifies how the funds will be used and requires the court to explain why such spending could not occur through its annual operating budget. If the Judicial Council approves the court’s request, the Judicial Council may impose additional terms and conditions that courts must accept, including separately tracking the expenditures associated with these funds held on behalf of the court. As a part of the Judicial Council-approved process for approving funds held on behalf of a court, Audit Service is charged with reviewing funds held on behalf of the courts as a part of its normal court audit cycle to confirm that the courts used the funds for their approved stated purpose.

Our review found that the Court complied with the requirements for its 1% fund balance cap calculations. Specifically, we reviewed the inputs on its final FY 2017-18 calculation form and found that the Court used expenditure amounts that agreed to its accounting records. In addition, the Court supported the encumbrances it reported on its final FY 2017-18 calculation form with valid contracts for goods and services not received by June 30, 2018.

Finally, we found the Court had excess funds held on its behalf at the end of FY 2017-18. We reviewed the Court’s 2018-19 expenditures of these held funds and found that its use of the funds was consistent with the purpose for which they were approved.

JBSIS CASE FILING DATA

The Court Reported Materially Accurate New Case Filings Counts and Data to JBSIS

Background

The Judicial Branch Statistical Information System (JBSIS) is a reporting system that defines and electronically collects summary information from court case management systems for each major case processing area of the court. JBSIS directly supports the technology goals of the Judicial Council's strategic plan, providing information for judicial branch policy and budgetary decisions, management reports for court administrators, and the Judicial Council's legislative mandate to report on the business of the courts. Authorization for JBSIS is found in California Rules of Court, rule 10.400: "Consistent with article VI, section 6 of the California Constitution and Government Code section 68505, JBSIS is established by the Judicial Council to provide accurate, consistent, and timely information for the judicial branch, the Legislature, and other state agencies that require information from the courts to fulfill their mandates. Each trial court must collect and report to the Judicial Council information according to its capability and level of automation as prescribed by the JBSIS Manual adopted by the Judicial Council..." The Court Executives Advisory Committee is responsible for oversight of this program.

Our review found that the Court's records materially support the total new case filing counts and data it reported to the Judicial Council's Office of Court Research through JBSIS for the fiscal year 2017-18.

OTHER AREAS

Background

We did not identify any other significant areas during the initial audit planning process that, based on our professional judgement, warranted any additional audit work. Therefore, we did not review compliance with any other areas.
