



## Judicial Council of California . Administrative Office of the Courts

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# REPORT TO THE JUDICIAL COUNCIL

For business meeting on August 23, 2013

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Title	Agenda Item Type
Judicial Branch Administration: Audit Report for Judicial Council Acceptance	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	August 23, 2013
Recommended by	Date of Report
Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch	August 5, 2013
Hon. Richard D. Huffman, Chair	Contact
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### Executive Summary

The Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch (A&E) and the Administrative Office of the Courts (AOC) recommend that the Judicial Council accept the audit report entitled *Audit of the Superior Court of California, County of Orange*. This acceptance is consistent with the policy approved by the Judicial Council on August 27, 2010, which specifies Judicial Council acceptance of audit reports as the last step to finalization of the reports before their placement on the California Courts public website to facilitate public access. Acceptance and publication of these reports promote transparent accountability and provide the courts with information to minimize future financial, compliance, and operational risk.

## **Recommendation**

A&E and AOC recommend that the Judicial Council, effective August 23, 2013, accept the following “pending” audit report:

1. Audit report dated December 2012 entitled: *Audit of the Superior Court of California, County of Orange*.

This acceptance will result in the audit report progressing from “pending” status to “final” status, and publishing the final report on the California Courts public website.

## **Previous Council Action**

The Judicial Council at its August 27, 2010, business meeting approved the following two recommendations, which established a new process for review and acceptance of audit reports:

1. Audit reports will be submitted through the Executive and Planning Committee to the Judicial Council. Audit reports will not be considered “final audit reports” until formally accepted by the council.
2. All final audit reports will be placed on the California Courts public website to facilitate public access. This procedure will apply to all audit reports accepted by the Judicial Council after approval of this recommendation.

## **Rationale for Recommendation**

Council acceptance of audit reports submitted by A&E through the Executive and Planning Committee is consistent with its policy described above and with its responsibility under Government Code section 77009(h), which states that “[t]he Judicial Council or its representatives may perform audits, reviews, and investigations of superior court operations and records wherever they may be located.”

## **Comments, Alternatives Considered, and Policy Implications**

### **A&E Committee comments**

A&E reviewed the report with particular attention focused on the issues contained in the Management Summary. Internal Audit Services (IAS) discussed three primary areas of concern with A&E. A&E concurred that the issues summarized below be included in this report:

1. Certain collection calculations and distributions have not been done accurately.  
The audit of the Court’s process for calculating and distributing the fines, penalties, fees, and other assessments it collects identified seventeen calculation and distribution exceptions including:
  - Calculation of the 2 Percent State Automation amount in criminal cases under Government Code § 68090.8; and.
  - Cases with dispositions involving traffic school, including red light and railroad violations.

The audit focused on high-volume case types and on cases with violations involving complex or special distributions where there is a greater likelihood of error. Distribution errors have been identified as a systemic issue with courts as similar issues have been identified to varying degrees in every audit report presented to the Judicial Council. This systemic issue has resulted in increased attention by the AOC. Last year the AOC held distribution training for courts throughout the state. This year, the AOC partnered with the California State Controller's Office to expand training on a statewide basis for courts, counties, educational institutions, and others. Reference materials and calculation templates were provided to all training participants, including staff from Orange Superior Court. Orange Superior Court indicates it will be addressing the issues identified by December 31, 2013.

2. Procurement controls require management's increased attention.

The Court's authorization matrix for purchase requisition approval was not current nor was it approved in writing by the Presiding Judge or delegate as required by policy. There were also numerous employees whose roles and level of authority were not accurately reflected in the Phoenix system requisition approver workflow. This is a repeat issue from the prior October 2007 audit report. Finally, a few other items of concern were identified, including the following:

- Two contracts which did not have the required purchase orders to allow encumbering of estimated court obligations ;
- One procurement that exceeded \$1 million that was not noticed as required by the *Judicial Branch Contracting Manual* to the California State Auditor (the Court indicated that it was an isolated occurrence or oversight); and
- Court credit card transactions that exceeded the \$1,500 single purchase limit and the \$5,000 per day limit.

The Court generally agreed with the issues identified and reported that eight of the twelve issues were corrected at the close of audit field work with the others due for correction later in 2013.

3. Travel and business meal expenditure compliance needs improvement.

The travel expense claim review indicated that increased attention was necessary to ensure expense documentation requirements are complied with and policy concerning approvals and reimbursement are followed. Some of the specific issues reported include the following:

- Out-of-state travel expense claims reviewed lacked written pre-approval by the presiding judge or designee in two cases;
- Documentation to support the cost of air travel, including airfare credit vouchers, was not sufficient to support the travel expense transaction;
- Reimbursement was paid for costs incurred while on personal travel status; and
- Itemized receipts supporting travel expenses charged to the Court's credit card were not always submitted.

With respect to business meal expenditures, the Court needs to exercise closer oversight over its business-related meals to ensure compliance with the *Trial Court Financial Policies and Procedures Manual* (FIN Manual). The following are some of the specific issues reported:

- The Court's Employee Appreciation Policy provides guidance relating to its employee appreciation program. The audit noted issues concerning the general ledger account used to record these expenses and the Court not adhering to its policy limits for each employee. The Court's policy allows door prizes, among other items, to be purchased for its employee recognition program with a \$10 or less per person per year limit. While the amount is limited and may be considered de minimus, there is a general public trust question of whether public funds should be used to purchase door prizes and similar gifts.
- Policy requires the pre-approval of all business meal requests by specific individuals and allows for limited delegation of that responsibility. Five of the six business-related meal forms were not approved according to policy.
- The FIN Manual specifies allowable costs and timeframe requirements (i.e., an 11 a.m. start for lunch to be reimbursed based on lunch rates) for business meals. The Court did not adhere in identified situations to allowed per person cost limits, timeframe requirements, and improperly reimbursed meal expenses in one instance where the costs were not associated with the event as they were incurred subsequent to the event.

The Court agreed with the issues identified and has implemented corrective action or is in the process of doing so for all of the issues reported. The general issue of allowability of expenditures, such as door prizes, gifts, etc., for employee morale/recognition events has come up on a number of recent audits.

### **Comments and policy implications**

The process established for finalizing an audit report, a process that has been thoroughly discussed with judicial branch leadership, involves extensive reviews and discussions with the entity being audited. It also allows, at any point in the process, for the entity (trial courts generally) to request an additional review of the draft audit report by the Chief of Staff before the audit report is placed in a pending status and presented to A&E for review and discussion. Once presented to A&E, additional comments from A&E could result in further discussions with the entity being audited before the committee recommends submission of the report to the council for acceptance.

In its review of audit reports, A&E generally has comments and questions that, in some cases, require additional analysis or discussion with the trial courts. IAS ensures that the results of any analysis, comments, and questions are addressed and provided to A&E.

Additionally, the Judicial Council, in December 2009, adopted rule 10.500 of the California Rules of Court, effective January 1, 2010, which provides for public access to nondeliberative or

nonadjudicative court records. Final audit reports are among the judicial administrative records that are subject to this 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, confidential or sensitive information that would compromise the security of the court or the safety of judicial branch personnel is omitted from audit reports. In accordance with auditing standards, disclosure of the omissions is included in the applicable reports.

### **Alternatives**

No alternatives were considered because the recommendation is consistent with approved council policy and with the provisions of Government Code section 77009(h).

### **Implementation Requirements, Costs, and Operational Impacts**

The proposed recommendation imposes no specific implementation requirements or costs, other than disclosure of the attached audit reports through online publication.

### **Relevant Strategic Plan Goals and Operational Plan Objectives**

The recommendation contained in this report pertains to the activities of IAS and the role it plays in the judicial branch as an independent appraisal entity. IAS's role as an evaluator is important for both the strategic plan and the operational plan of the judicial branch. Specifically, IAS plays an important role as evaluator under Goal II, Independence and Accountability—in particular Goal II.B.4—by helping to “[e]stablish fiscal and operational accountability standards for the judicial branch to ensure the achievement of and adherence to these standards.” Additionally, IAS has an important role in fulfilling several of the objectives of the operational plan related to Goal II because its work pertains to the requirement that the branch “maintain the highest standards of accountability for its use of public resources and adherence to its statutory and constitutional mandates.” Part of the role and responsibility of IAS also relates to Objective II.B.4 because the audit reports it produces help to “[m]easure and regularly report branch performance.”

### **Attachments**

There are no attachments to this report. The following audit report will be placed on the California Courts public website ( <http://www.courts.ca.gov/12050.htm> ) after the Judicial Council has accepted it:

1. Audit report dated December 2012 entitled: *Audit of the Superior Court of California, County of Orange.*