



JUDICIAL COUNCIL OF CALIFORNIA

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on: June 26, 2015

Title	Agenda Item Type
Judicial Branch Administration: Audit Report for Judicial Council Acceptance	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	June 26, 2015
Recommended by	Date of Report
Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch	April 28, 2015
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 Committee) and Judicial Council staff recommend that the Judicial Council accept the audit report entitled *Audit of the Superior Court of California, County of San Luis Obispo*. 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

The A&E Committee and Judicial Council staff recommend that the Judicial Council, effective June 26, 2015, accept the following “pending” audit report:

- Audit report dated December 2014 entitled: *Audit of the Superior Court of California, County of San Luis Obispo*

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 Actions

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.

Since August 2010 audit reports have been submitted to the Judicial Council for acceptance.

Rationale for Recommendation

Council acceptance of audit reports submitted by the A&E Committee 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.”

A&E Committee Comments

The A&E Committee reviewed the San Luis Obispo Superior Court (Court) audit report and recommended this audit report be on consent agenda. The A&E Committee expressed concerns regarding:

- the Court’s continued imposition of the Vehicle Code section 40508.6 \$10 administrative assessment for every traffic case’s first conviction instead of subsequent convictions only (discontinued on January 27, 2015);
- accounting practices for recording and reporting financial transactions;
- fiscal management practices and procedures including the lack of adherence to business meal per person limit requirements; and
- compliance with statutory assessments in domestic violence cases.

While these concerns were expressed, the consent agenda recommendation is primarily based on the following:

- There are a relatively small number (72) of issues in the report with over half reported in the body of the report as significant but 59 or approximately 82% of the issues reported were responded to by the Court as corrected at the end of the audit.
- Additionally, while there are a minimal number (6) of issues repeated from the prior audit of the Court completed in 2009, there are four in the accounts payable section of the report with the other two in the domestic violence section, all have been reported as corrected.
- Almost all of the issues that Audit Services considers high risk, or posing a higher than normal exposure to operational loss, were immediately addressed by the Court when Court management was informed of them. It is also worthy to note that the Court has had in the last few years (as noted in the financial statements on pages viii through x) significant deficits of revenues over expenditures that has impacted operations and staffing resources.

There are also a number of systemic issues in the audit report that were discussed by the committee. Some of the more significant ones are issues concerning distribution calculations, recording and reporting of financial transactions, business meal policy compliance, and assessment of fines and fees by judicial officers in domestic violence cases. These and repeat issues will be the subject of an upcoming A&E Committee meeting. Additionally, Audit Services is in the process of issuing Audit Advisories on general audit concerns, repeat issues, and systemic issues, and is actively working with the Presiding Judges Advisory Committee and Court Executives Advisory Committee chairs on how to better address education and other efforts focused on correcting repeat and systemic issues identified in audits.

Audit Services (AS) discussed the following specific issues from the Management Summary of the audit report and other concerns with the A&E Committee.

- Over the last two plus years the Court has implemented a new case management system (Odyssey) for all case types which required significant business practice changes and management time. Odyssey has the fiscal capability to automatically calculate the required distributions of monies collected but in order to do this the Court spent a lot of effort to configure the distributions. State statutes and local ordinances govern the distribution of the fines, penalties, fees, and other assessments that courts collect. Courts rely on the *Manual of Accounting and Audit Guidelines for Trial Courts – Appendix C* issued by the State Controller’s Office (SCO) and the *Uniform Bail and Penalty Schedules* issued by the Judicial Council to calculate and distribute these court collections to the appropriate State and local funds. Courts use either an automated system, manual process, or a combination of both to perform the very complex calculations and distributions required by law. This is the first court to implement the Odyssey case management system and Audit Services spent extra time and effort at this court to review the distributions in order to hopefully help other courts who are also acquiring the Odyssey system. The results of the review of this very complex area did not disclose an

unusual number of issues but did find some considered somewhat unique to the configuration of a new case management system. Distribution issues included in section 6.1 of this report were all corrected by the Court.

- Audit Services review of accounting practices for recording and reporting financial transactions and fiscal management practices and procedures noted issues such as:
 - The Court offers a taxable Wellness/Fitness Benefit that reimburses certain eligible employees up to \$200 within a 12 month period for one of four health maintenance alternatives. The Court may have good intentions for such a program and may benefit from a healthier workforce in the way of increased productivity, reduced absenteeism, and lower health care spending. However, providing monetary payments and reimbursements for activities that are private in nature may be perceived as a questionable use of public funds especially if there is not a usage monitoring process. At this time, we do not believe that the State executive branch provides similar payments and reimbursements.
 - Our review of the Court's financial accounting and reporting controls and procedures, select fiscal year 2013 – 2014 transactions, and external financial reports identified the issues including:
 - ✓ The Court inappropriately accrued year-end expenditures and related reimbursements of nearly \$400,000 for its case and document management systems replacement project.
 - ✓ The Court incorrectly reported certain financial information for inclusion in the State's CAFR for fixed assets (\$49,000), sick leave liability (\$27,000), and lease payments (\$6,500).
 - ✓ The Court incorrectly recorded reimbursements received from the County for grand jury expenditures as reductions to jury expenditures or abatements (\$5,600).
 - ✓ The Court did not record reimbursements and expenditures for three grants that exceeded \$223,000 it received from the County in the Local Government Grant Fund 190400. As a result, the Court was unaware it received a duplicate grant reimbursement until our review.
 - Business meal requirements were not adhered to. The maximum per person limit was exceeded as the amount paid was twice the maximum for a group meal at a restaurant. The Court did not consistently require complete Business-Related Meal Forms to be submitted and approved for three of the seven expenditures tested.
- Finally, Audit Services reviewed 26 criminal domestic violence cases that represented 11 percent of all domestic violence cases disposed of between January 1, 2014 and September 30, 2014. The following instances of non-compliance were identified:
 - The statutory or total fine assessed in seven cases was insufficient to satisfy the mandatory minimum fines and fees. For another five cases reviewed, the Court's judicial officers did not assess any mandatory minimum fines and fees.
 - For four cases reviewed where the defendant was sentenced to Court-supervised probation, the Court imposed a probation term that was less than the minimum three years required for DV cases. Additionally, since probation orders were not prepared, no documentation was available to evidence that the Probation Revocation Fine was assessed and stayed pending successful completion of probation.

Audit Services will contact the Court on a periodic basis to follow-up on the status of the correction of the incomplete issues identified in the audit report. The Court must ensure that it monitors the report's issues and corrective actions taken by the Court to ensure that the issues remain corrected and the Court's system of internal controls is not jeopardized. Audit Services will report this status to the Executive Office and the A&E Committee periodically and as appropriate.

Comments and policy implications

The process established for finalizing an audit report 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 the A&E Committee for review and discussion. Once presented to the A&E Committee, additional comments from the A&E Committee 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, the A&E Committee generally has comments and questions that, in some cases, require additional analysis or discussion with the trial courts. AS ensures that the results of any analysis, comments, and questions are addressed and provided to the A&E Committee.

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 AS and the role it plays in the judicial branch as an independent appraisal entity. AS'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 AS 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 2014 entitled: *Audit of the Superior Court of California, County of San Luis Obispo.*