

MENDOCINO COUNTY

Audit Report

COURT REVENUES

July 1, 2003, through June 30, 2008



JOHN CHIANG
California State Controller

November 2009



JOHN CHIANG
California State Controller

November 25, 2009

The Honorable Meredith Ford
Auditor-Controller
Mendocino County
500 Low Gap Road, Room 1080
Ukiah, CA 95482

Benjamin D. Stough
Court Executive Officer
Superior Court of California, Mendocino County
100 No. State Street, Room 303
Ukiah, CA 95482

Dear Ms. Ford and Mr. Stough:

The State Controller's Office audited Mendocino County's court revenues for the period of July 1, 2003, through June 30, 2008.

The county overremitted a net of \$91,758 in court revenues to the State Treasurer. The county overremitted \$159,298 of 50% excess of qualified fines, fees, and penalties and underremitted \$67,540 in court revenues to the State Treasurer due to an inequitable distribution of operating costs from the comprehensive collection program.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: John A. Judnick, Manager, Internal Audit
Judicial Council of California
Julie Nauman, Executive Officer
Victim Compensation and Government Claims Board
Greg Jolivette
Legislative Analyst's Office

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Audit Report

Summary

The State Controller's Office (SCO) performed an audit to determine the propriety of court revenues remitted to the State of California by Mendocino County for the period of July 1, 2003, through June 30, 2008.

The county overremitted \$159,298 in court revenues to the State Treasurer of the 50% excess of qualified fines, fees, and penalties. The county also underremitted \$67,540 in court revenues to the State Treasurer due to an inequitable distribution of operating costs from the comprehensive collection program. This resulted in a net overremittance of \$91,758 in court revenues to the State Treasurer.

Background

State statutes govern the distribution of court revenues, which include fines, penalties, assessments, fees, restitutions, bail forfeitures, and parking surcharges. Whenever the State is entitled to a portion of such money, the court is required by Government Code section 68101 to deposit the State's portion of court revenues with the county treasurer as soon as practical and to provide the county auditor with a monthly record of collections. This section further requires that the county auditor transmit the funds and a record of the money collected to the State Treasurer at least once a month.

Government Code section 68103 requires that the State Controller determine whether or not all court collections remitted to the State Treasurer are complete. Government Code section 68104 authorizes the State Controller to examine records maintained by any court. Furthermore, Government Code section 12410 provides the State Controller with general audit authority to ensure that state funds are properly safeguarded.

Objective, Scope, and Methodology

Our audit objective was to determine whether the county completely and accurately remitted court revenues in a timely manner to the State Treasurer for the period of July 1, 2003, through June 30, 2008. We did not review the timeliness of any remittances the county may be required to make under Government Code sections 70353, 77201.1(b)(1), and 77201(b)(2).

To meet our objective, we reviewed the revenue-processing systems within the county's Superior Court, Probation Department, Collection's Department, and Auditor-Controller's Office.

We performed the following procedures:

- Reviewed the accuracy of distribution reports prepared by the county, which show court revenue distributions to the State, the county, and the cities located within the county.
- Gained an understanding of the county's revenue collection and reporting processes by interviewing key personnel and reviewing documents supporting the transaction flow.
- Analyzed various revenue accounts reported in the county's monthly cash statements for unusual variations and omissions.
- Evaluated the accuracy of revenue distribution using as criteria various California codes and the SCO's *Manual of Accounting and Audit Guidelines for Trial Courts*.
- Tested for any incorrect distributions.
- Expanded any tests that revealed errors to determine the extent of any incorrect distributions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We did not audit the county's financial statements. We considered the county's internal controls only to the extent necessary to plan the audit. This report relates solely to our examination of court revenues remitted and payable to the State of California. Therefore, we do not express an opinion as to whether the county's court revenues, taken as a whole, are free from material misstatement.

Conclusion

Mendocino County overremitted \$91,758 (net) in court revenues to the State Treasurer. The over/underremittances are summarized in Schedule 1 and described in the Findings and Recommendations section of this report.

Follow-Up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued August 27, 2004.

Views of Responsible Official

We issued a draft audit report on March 20, 2009. Meredith Ford, Auditor-Controller, responded by letter dated July 2, 2009 (Attachment), agreeing with the audit results. We received a response from the Mendocino County Courts via e-mail stating that it had no comments to offer.

Restricted Use

This report is solely for the information and use of Mendocino County, the Mendocino County Courts, the Judicial Council of California, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

November 25, 2009

**Schedule 1—
Summary of Audit Findings by Fiscal Year
July 1, 2003, through June 30, 2008**

Description	Account Title ¹	Code Section ²	Fiscal Year					Total	Reference ³
			2003-04	2004-05	2005-06	2006-07	2007-08		
Underremitted 50% of qualified fines, fees, and penalties	State Trial Court Improvement Fund	GC §77205	\$(42,291)	\$(26,440)	\$(20,030)	\$(31,844)	\$(38,693)	\$(159,298)	Finding 1
Inequitable distribution of operating cost from the comprehensive collection program	State Penalty Fund	PC §1464	—	4,368	4,699	5,574	6,907	21,548	Finding 2
	State Court Facilities Construction Fund	GC §70372	—	3,050	3,281	3,892	4,823	15,046	
	State Restitution	PC §1202.4	—	1,521	1,636	1,941	2,406	7,504	
	State Court Security Fees	PC §1465.8	—	1,499	1,612	1,913	2,370	7,394	
	State General Fund	PC §1465.7	—	1,295	1,394	1,653	2,049	6,391	
	State DNA Penalties	GC §76104.7	—	—	—	1,186	1,470	2,656	
	State Court Automation Fees	GC §68090.8	—	466	502	595	737	2,300	
	State Fish and Game Penalties	PC §1464	—	461	496	589	729	2,275	
	State DNA Penalty Fund	GC §76104.6	—	283	305	362	448	1,398	
	State Fish and Game Fines	F&GC §13003	—	208	224	266	330	1,028	
	Net amount underpaid/(overpaid) to the State Treasurer			<u>\$(42,291)</u>	<u>\$(13,289)</u>	<u>\$(5,881)</u>	<u>\$(13,873)</u>	<u>\$(16,424)</u>	<u>\$(91,758)</u>

¹ The identification of state revenue account titles should be used to ensure proper recording when preparing the remittance advice form (TC-31) to the State Treasurer.

² Legend: GC = Government Code
PC = Penal Code
F&GC = Fish and Game Code

³ See the Findings and Recommendations section.

**Schedule 2—
Summary of Underremittances by Month
State Court Facilities Construction Fund
July 1, 2003, through June 30, 2008**

Month	Fiscal Year			
	2004-05	2005-06	2006-07	2007-08
July	\$ 129	\$ 235	\$ 255	\$ 203
August	438	288	306	511
September	236	266	491	318
October	—	274	305	339
November	—	237	213	380
December	522	196	333	466
January	303	255	245	412
February	330	328	255	426
March	271	273	391	396
April	229	251	368	389
May	288	310	252	456
June	304	368	478	527
Total underremittances to the State Treasurer	<u>\$ 3,050</u>	<u>\$ 3,281</u>	<u>\$ 3,892</u>	<u>\$ 4,823</u>

NOTE: Delinquent State Court Facilities Construction Fund remittances not remitted to the SCO within 45 days of the end of the month in which the fees were collected are subject to penalty, pursuant to Government Code section 70377. The SCO will calculate and bill the county for the penalty after the county pays the underlying amount owed.

**Schedule 3—
Summary of Overremittances by Month
July 1, 2003, through June 30, 2008**

Month	Fiscal Year				
	2004-05	2005-06	2006-07	2007-08	2008-09
July	\$ —	\$ —	\$ —	\$ —	\$ —
August	42,291	26,440	20,030	31,844	38,693
September	—	—	—	—	—
October	—	—	—	—	—
November	—	—	—	—	—
December	—	—	—	—	—
January	—	—	—	—	—
February	—	—	—	—	—
March	—	—	—	—	—
April	—	—	—	—	—
May	—	—	—	—	—
June	—	—	—	—	—
Total overremittances to the State Treasurer	<u>\$ 42,291</u>	<u>\$ 26,440</u>	<u>\$ 20,030</u>	<u>\$ 31,844</u>	<u>\$ 38,693</u>

Findings and Recommendations

FINDING 1— Overremitted 50% excess of qualified fines, fees, and penalties

The County Auditor-Controller's Office overremitted by \$159,298 the 50% excess of qualified fines, fees, and penalties to the State Treasurer for the five fiscal year (FY) period starting July 1, 2003, and ending June 30, 2008.

Government Code section 77201(b)(2) requires Mendocino County, for its base revenue obligation, to remit \$717,075 for FY 2003-04 and each fiscal year thereafter. In addition, Government Code section 77205(a) requires the county to remit to the Trial Court Improvement Fund 50% of qualified revenues that exceed the stated base for each fiscal year.

The error occurred because the county used incorrect entries in its maintenance-of-effort (MOE) distribution working papers and as a result of conditions identified as follows:

- When preparing the MOE, the county did not include all base fine revenues pursuant to Penal Code section 1463. In addition, the county applied 100% of the base fines from the accounts reported. The total net additional base fine revenues are \$335,136 and should have been included in the MOE.
- As stated in Finding 2, the County Collections Department did not equitably distribute operating costs from the comprehensive collection program to the accounts on which collections were received. The adjustment caused the county base fines to increase by \$21,469 and 30% of eligible state penalties to increase by \$10,210. A total of \$31,679 should have been included in the MOE.
- When preparing the MOE, the county inappropriately reported 100% of county traffic violator school (TVS) bail. The total net additional TVS bail is \$685,411 should not have been included in the MOE.

The qualified revenues reported for FY 2003-04 were \$1,395,183. The excess, above the base of \$717,075, is \$678,108. This amount should be divided equally between the county and the State, resulting in \$339,054 excess due the State. The county remitted a previous payment of \$381,345, causing an overremittance of \$42,291.

The qualified revenues reported for FY 2004-05 were \$1,555,002. The excess, above the base of \$717,075, is \$837,927. This amount should be divided equally between the county and the State, resulting in \$418,963 excess due the State. The county remitted a previous payment of \$445,403, causing an overremittance of \$26,440.

The qualified revenues reported for FY 2005-06 were \$1,542,017. The excess, above the base of \$717,075, is \$824,942. This amount should be divided equally between the county and the State, resulting in \$412,471 excess due the State. The county remitted a previous payment of \$432,501, causing an overremittance of \$20,030.

The qualified revenues reported for FY 2006-07 were \$1,725,633. The excess, above the base of \$717,075, is \$1,088,558. This amount should be divided equally between the county and the State, resulting in \$504,279 excess due the State. The county remitted a previous payment of \$536,123, causing an overremittance of \$31,844.

The qualified revenues reported for FY 2007-08 were \$1,774,803. The excess, above the base of \$717,075, is \$1,057,728. This amount should be divided equally between the county and the State, resulting in \$528,864 excess due the State. The county remitted a previous payment of \$567,557, causing an overremittance of \$38,693.

The overremittances had the following effect.

Account Title	Understated/ (Overstated)
Trial Court Improvement Fund–Government Code section 77205:	
FY 2003-04	\$ (42,291)
FY 2004-05	(26,440)
FY 2005-06	(20,030)
FY 2006-07	(31,844)
FY 2007-08	(38,693)
County General Fund	159,298

Recommendation

The county should reduce remittances to the State Treasurer by \$159,298 and report on the remittance advice form (TC-31) a decrease to the Trial Court Improvement Fund–Government Code section 77205. The county should also make the corresponding account adjustments.

County's Response

The County agrees with the finding, although the Court needs to modify its methods to facilitate the correct method of calculation.

**FINDING 2—
Inequitable distribution
of operating costs from
the comprehensive
collection program**

The Mendocino County Collections Department did not equitably distribute operating costs from the comprehensive collection program to the accounts on which collections were received throughout the audit period. Probation fees and other court collections were not offset for their fair portion of costs. Court personnel indicated that the required distribution was inadvertently overlooked.

Penal Code section 1463.007 allows a court collection entity that implements a comprehensive collection program that satisfies specific statutory requirements to deduct program operating costs in an equitable manner from program revenue collections of fines, forfeitures, and fees. This section further allows a court collection entity to distribute those amounts to the county treasury prior to distribution of those revenues to the State, county, and cities. The program must have a separate and distinct revenue collection activity that identifies total collections received from qualifying accounts and their related operating costs.

The SCO’s Comprehensive Collection Program Accounting Guidelines declares that operating costs are to be equitably offset against the sources in which the collections were received. The excess of the related supportable operating costs are required to be redistributed monthly. However, if the program’s operating costs for a given month exceed revenues collected, the excess costs may be carried forward until qualifying revenues are available to fully recover these eligible costs.

The inappropriate distributions affected the revenues reported to the State Trial Court Improvement Fund under the MOE formula pursuant to Government Code section 77205. In addition, the inappropriate distribution had the following affect:

<u>Account Title</u>	<u>Understated/ (Overstated)</u>
State Penalty Fund–PC §1464	21,548
State Court Facilities Construction Fund–GC §70372(a)	15,046
State Restitution–PC §1202.4	7,504
State Court Security Fees–PC §1465.8	7,394
State General Fund-20% Surcharge–PC §1465.7	6,391
State DNA Penalties–GC §76104.6	2,656
State Court Automation Fund–GC §68090.8	2,300
State Fish and Game–PC §1464	2,275
State DNA Penalties–GC §76104.7	1,398
State Fish and Game–F&GC §13003	1,028
County General Fund	(140,867)
County Jail Facilities Penalty Fund	18,906
County Emergency Medical Service Penalty Fund	3,436
County Fingerprint Penalty Fund	1,831
County DNA Fund	1,150
Mendocino County Court	48,004

Recommendation

The county should remit \$67,540 to the State Treasurer and report on the remittance advice form (TC-31) increases of:

- \$21,548 to the State Penalty Fund–Penal Code section 1464
- \$15,046 to the State Court Facilities Construction Fund–Government Code section 70372(a)
- \$7,505 to the State Restitution Fund-Penal Code section 1202.4
- \$7,394 to the State Trial Court Trust Fund–Penal Code section 1465.8
- \$6,391 to State General Fund (20% Surcharge)–Penal Code section 1465.7
- \$2,656 to the State DNA Identification Fund–Government Code section 76104.6
- \$2,300 to the State Trial Court Improvement Fund–Government Code section 68090.8
- \$2,275 to the State Fish and Game Fund–Penal Code section 1464
- \$1,398 to the State DNA Identification Fund–Government Code section 76104.7
- \$1,028 to the State Fish and Game Fund–Fish and Game Code section 13003.

The county should also make the corresponding account adjustments.

The Collections Department should prepare a re-distribution for the collection period starting July 2008 through the date on which the current system is revised.

County's Response

The County agrees with the recommendation, and our method of distribution of operating costs has been corrected.

**Attachment—
County Auditor-Controller's Response
to Draft Audit Report**

MEREDITH J. FORD
Auditor-Controller



LLOYD B. WEER
Assistant
Auditor-Controller

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AUDITOR-CONTROLLER
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July 2, 2009

Steven Mar, Chief
Local Government Audits Bureau
State Controller Office
Division of Audits
P O Box 942850
Sacramento, CA 94250-5874

Re: Draft Report of State Controller's Court Revenue Audit

Dear Mr. Mar:

I apologize for not responding in a timely manner to the draft report sent on March 20, 2009. I haven't received a final audit report, so I'm not sure if it has been issued.

In response to the draft report, I submit the following:

- **Finding 1: Under-remitted 50% excess of qualified fines, fees, and penalties.**
 - (Although the title says 'under-remitted', I believe it should read 'over-remitted' as the report states in its first sentence.) The County agrees with the finding, although the Court needs to modify its methods to facilitate the correct method of calculation.
- **Finding 2: Inequitable distribution of operating costs from the comprehensive collection program.**
 - The County agrees with the recommendation, and our method of distribution of operating costs has been corrected.

Please contact me with any questions you may have.

Sincerely,

A handwritten signature in blue ink that reads "Meredith Ford". The signature is written in a cursive, flowing style.

Meredith Ford
Auditor-Controller

**State Controller's Office
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