

SUPERIOR COURT OF CALIFORNIA, COUNTY OF LAKE

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2020, through June 30, 2021



MALIA M. COHEN
California State Controller

January 2023



MALIA M. COHEN
California State Controller

January 31, 2023

Krista LeVier, Court Executive Officer
Superior Court of California, County of Lake
255 N. Forbes Street
Lakeport, CA 95453

Dear Ms. LeVier:

The State Controller's Office audited the Superior Court of California, County of Lake (Court) to evaluate whether the Court complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for any funds under the Court's administration and control that we determined were material and significant. The audit period was July 1, 2020, through June 30, 2021.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances.

The Court agreed with our conclusions. This report is for the Court's information and use.

If you have any questions, please contact Joel James, Chief, Financial Audits Bureau, by telephone at (916) 323-1573.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/ac

cc: Michaela Noland, Administrative Services Manager
Superior Court of California, County of Lake
Millicent Tidwell, Acting Administrative Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer and Director of Finance
Judicial Council of California
Dawn Tomita, Manager
Audit Services
Judicial Council of California
Aaron Edwards, Assistant Program Budget Manager
California Department of Finance
Emma Jungwirth, Principal Program Budget Analyst
California Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Lake (Court) to evaluate whether the Court complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for any funds under the Court's administration and control that we determined were material and significant. The audit period was July 1, 2020, through June 30, 2021.

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court, established through Article IV of the California Constitution. The Constitution charges the Judicial Council of California (JCC) with authority to adopt rules for court administration, practices, and procedures. The Judicial Council Governance Policies are included in the California Rules of Court. Trial courts are also required to comply with various other state laws, rules, and regulations, many of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, "The Organization and Government of Courts."

Pursuant to California Rules of Court (CRC) rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual* (FIN Manual), which provides guidance and directives for trial court fiscal management. As required by CRC rule 10.804(a), the FIN Manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. The manual describes an internal control framework that enables courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability. Procurement and contracting policies and procedures are addressed separately in the *Judicial Branch Contracting Manual*, adopted by the JCC under Public Contract Code section 19206.

With respect to trial court operations, CRC rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

All trial court employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components form the core of subject matter of our audit.

The Trial Court Trust Fund (TCTF) is the primary source of funding for trial court operations. The JCC allocates monies in the TCTF to trial courts. The TCTF's two main revenue sources are the annual transfer of appropriations from the State's General Fund and maintenance-of-effort payments by counties, derived from their collections of fines, fees, and forfeitures.

In fiscal year (FY) 2020-21, the Court reported revenues of \$5,191,488. The Court receives the majority of its revenue from state financing sources. The TCTF provided 79.95% of the Court's revenue. During the audit period, the Court incurred expenditures of \$5,215,779. Payroll-related expenditures (salaries and benefits) comprised 57.92% of total expenditures. The Court employed 27 staff members to serve Lake County's population of approximately 64,000 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, and a Special Revenue Grant Fund. The General Fund, the Special Revenue Non-Grant Fund, and the Special Revenue Grant Fund had revenue and expenditure accounts in excess of 4% of total revenues and expenditures, and were considered material and significant for testing.

We performed the audit at the request of the JCC. Audit authority is provided by Interagency Agreement Number 78846, dated June 14, 2022, between the SCO and the JCC, and by GC section 77206(h)(2).

**Objective, Scope,
and Methodology**

The objective of our audit was to evaluate whether the Court complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for any funds under the Court's administration and control that we determined were material and significant.

The audit period was July 1, 2020, through June 30, 2021.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with Government Code, properly supported by documentation, and recorded accurately in the accounting records;
- Expenditures were incurred pursuant to Government Code, consistent with the funds' purposes, properly authorized, adequately supported, and recorded accurately in the accounting records; and
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

To accomplish our objective, we performed the following procedures.

General Procedures

We reviewed the *Judicial Council Governance Policies* (November 2017), the FY 2020-21 Budget Act, the Manual of State Funds, Government Code, the California Rules of Court, the JCC's FIN Manual (11th edition, June 2020), and internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Controls

- We reviewed the Court's current policies and procedures, organization, and website, and interviewed Court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- We interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls.
- We assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties, were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions.
- We reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the Court's financial and human resources systems; (2) reviewing Court policies; (3) agreeing accounting data files to published financial reports; (4) tracing data records to source documents to verify completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key court information systems. We determined that the data was sufficiently reliable for the purposes of achieving our objective.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 12 revenue items and 44 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. For expenditure testing, our sample consisted of 39 non-payroll transactions and the payroll records of five employees.

Revenue Testing

We designed our revenue testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our procedures included tests of recorded transaction details and of accounting internal controls.

- We tested revenue transactions and account balances in the General Fund, the Special Revenue Non-Grant Fund, and the Special Revenue

Grant Fund to determine whether revenue accounting was consistent with Government Code, properly supported by documentation, and recorded correctly in the accounting system.

- We selected all material financial statement accounts that exceeded 4% of total revenues, and determined that the TCTF, Improvement and Modernization Fund, MOU [memorandum of understanding] Reimbursement, and Assembly Bill 1058 Commissioner/Facilitator accounts were material for testing. We expanded our testing to include the Court Interpreter account. We tested accounts through combined sampling and analytical procedures.
- We tested \$5,117,001 of \$5,191,488 or 98.6% of total revenues.

We found no errors in the recording of transactions. Schedule 1— Summary of Revenues and Revenue Test Results presents, by account, total revenues and related amounts tested.

Expenditure Testing

We designed our expenditure testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our procedures included tests of recorded transaction details and of accounting internal controls.

- We tested expenditure transactions and account balances in the General Fund, the Special Revenue Non-Grant Fund, and the Special Revenue Grant Fund to determine whether expenditures were incurred pursuant to Government Code, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded 4% of total expenditures. Material accounts included payroll-related (Salary – Permanent, and Staff Benefits) accounts and non-payroll (General Expense, Contracted Services, and Information Technology) accounts.
- For payroll-related accounts, we selected two bi-weekly pay periods in August 2020 and March 2021 to review. We reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger and examined supporting records of benefit charges. We then selected five of 34 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and supplemental pay were supported by salary schedules and personnel action forms;
 - Employer retirement contributions and payroll taxes were entered in the general ledger accurately; and
 - Health insurance premiums shown on the payroll register agreed to the employees' benefit election forms.
- To test material non-payroll accounts, we selected samples to test key internal control activities and the accuracy of recorded transactions,

and traced expenditures recorded in the general ledger to supporting documentation. We tested the following expenditures:

- General Services – We tested four out of 932 transactions.
- Contracted Services – We tested 24 out of 899 transactions.
- Information Technology – We tested 11 out of 133 transactions.
- We tested \$599,657 of \$5,215,779 or 11.5% of total expenditures.

We found no errors in the recording of transactions. Schedule 2—Summary of Expenditures and Expenditure Test Results, by account, total expenditures and related amounts tested.

Fund Balance Testing

We designed our fund balance testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our procedures included review of fund classifications and accounting internal controls.

- We judgmentally selected the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund, as these funds had revenue and expenditure accounts with significant balances.
- We tested revenue and expenditure transactions in these funds to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedules 1 and 2).
- We verified the accuracy of individual fund balances and constraints in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2021, were accurate and in compliance with applicable criteria.

We found that fund balances for the tested funds were properly reported. Schedule 3—Summary of Fund Balances and Fund Balance Test Results, presents, by fund, total balances and changes in fund balances.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the court's internal controls to gaining an understanding of the internal controls that are significant to the audit objective. We did not audit the court's financial statements.

Conclusion

Our audit found that revenues, expenditures, and fund balances reported by the Court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

**Follow-up on
Prior Audit
Findings**

We have not previously conducted an audit of the Court’s revenues, expenditures, and fund balances; therefore, there are no prior audit findings to address in this report.

**Views of
Responsible
Officials**

We conducted an exit conference on November 16, 2022, and discussed our audit results with Court representatives. The Court agreed with our conclusions.

Restricted Use

This report is solely intended for the information and use of the Superior Court of California, County of Lake; the JCC, 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 the distribution of this report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

January 31, 2023

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2020, through June 30, 2021**

Revenue Accounts	Revenues Reported ¹		Revenues Tested ¹		Error Amount
	Total	Percentage	Amount	Percentage	
<u>State Financing Sources</u>					
Trial Court Trust Fund ²	\$ 4,150,345	79.9%	\$ 4,150,345	100.0%	\$ -
Improvement and Modernization Fund ^{2,3}	315,417	6.1%	315,417	100.0%	-
Judges' Compensation	-	0.0%	-	0.0%	-
Court Interpreter	152,178	2.9%	152,178	100.0%	-
Civil Coordinator Reimbursement	-	0.0%	-	0.0%	-
MOU Reimbursements ²	269,242	5.2%	269,242	100.0%	-
Other Miscellaneous	9,123	0.2%	-	0.0%	-
Subtotal	4,896,305		4,887,182		-
<u>Grants</u>					
AB 1058 Commissioner/Facilitator ²	229,819	4.4%	229,819	100.0%	-
Other Judicial Council Grants	12,210	0.2%	-	0.0%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	242,029		229,819		-
<u>Other Financing Sources</u>					
Interest Income	6,954	0.1%	-	0.0%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	-	0.0%	-	0.0%	-
Local Fees	8,809	0.2%	-	0.0%	-
Non-Fee Revenues	441	0.0%	-	0.0%	-
Enhanced Collections	-	0.0%	-	0.0%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	1,577	0.0%	-	0.0%	-
County Program - Restricted	492	0.0%	-	0.0%	-
Reimbursement Other	34,878	0.7%	-	0.0%	-
Sale of Fixed Assets	-	0.0%	-	0.0%	-
Other Miscellaneous	3	0.0%	-	0.0%	-
Subtotal	53,154		-		-
Total Revenues	\$ 5,191,488	100.0%	\$ 5,117,001	98.6%	\$ -

¹ Differences due to rounding

² Material account

**Schedule 2—
Summary of Expenditures and Expenditure Test Results
July 1, 2020, through June 30, 2021**

Expenditure Accounts	Expenditures Reported ¹		Expenditures Tested ¹		Error Amount
	Total	Percentage	Amount	Percentage	
Payroll					
Salaries - Permanent ²	\$ 1,922,634	36.9%	\$ 47,871	2.5%	\$ -
Temporary Help	17,651	0.3%	-	0.0%	-
Overtime	993	0.0%	55	5.6%	-
Staff Benefits ²	1,098,147	21.1%	7,969	0.7%	-
Subtotal	3,039,425		55,895		-
Operating Expenses and Equipment					
General Expense ²	233,145	4.5%	94,400	40.5%	-
Printing	12,447	0.2%	-	0.0%	-
Telecommunications	15,962	0.3%	-	0.0%	-
Postage	22,924	0.4%	-	0.0%	-
Insurance	7,332	0.1%	-	0.0%	-
In-State Travel	290	0.0%	-	0.0%	-
Out-of-State Travel	-	0.0%	-	0.0%	-
Training	788	0.0%	-	0.0%	-
Security Services	205,371	3.9%	-	0.0%	-
Facility Operations	119,080	2.3%	-	0.0%	-
Utilities	5,087	0.1%	137	0.0%	-
Contracted Services ²	1,120,938	21.5%	248,912	22.2%	-
Consulting and Professional Services	12,135	0.2%	-	0.0%	-
Information Technology ²	286,936	5.5%	200,450	69.9%	-
Major Equipment	122,280	2.3%	-	0.0%	-
Other Items of Expense	87	0.0%	-	0.0%	-
Subtotal	2,164,802		543,899		-
Special Items of Expense					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	11,047	0.2%	-	0.0%	-
Judgments, Settlements and Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense Adjustment	506	0.0%	(137)	-27.1%	-
Subtotal	11,553		(137)		-
Total Expenditures	\$ 5,215,779	100.0%	\$ 599,657	11.5%	\$ -

¹ Differences due to rounding

² Material account

**Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2020, through June 30, 2021**

Balance	General Fund ¹	Non-Grant Special Revenue Fund ¹	Grant Special Revenue Fund ¹	Total ¹
Beginning Balance	\$ 522,904	\$ 207,896	\$ -	\$ 730,800
Revenues	4,916,503	274,985	-	5,191,488
Expenditures	(4,890,634)	(325,146)	-	(5,215,779)
Transfers In	(73,347)	-	-	(73,347)
Transfers Out	-	73,347	-	73,347
Ending Balance	<u>\$ 475,426</u>	<u>\$ 231,082</u>	<u>\$ -</u>	<u>\$ 706,508</u>
Errors Noted				
Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

<http://www.sco.ca.gov>