

JUDICIAL COUNCIL OF CALIFORNIA

Audit Report

FISCAL COMPLIANCE AUDIT PROGRAM

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

January 2022



BETTY T. YEE
California State Controller

January 20, 2022

Chief Justice Tani G. Cantil-Sakauye, Chair
Judicial Council of California
455 Golden Gate Avenue
San Francisco, CA 94120

Dear Chief Justice Cantil-Sakauye:

The State Controller's Office audited the revenues, expenditures, and fund balances of the Judicial Council of California (Council). We conducted this audit to assess the Council staff's compliance with governing statutes, rules, regulations, and policies for all significant funds under the jurisdiction of the Council staff for the period of July 1, 2019, through June 30, 2020.

Our audit found that Council staff substantially complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, our audit identified misstated fund balances in the Council's year-end fund financial reports and miscoded expenditure account entries in the Council's general ledger. These misstated balances and miscoded entries are described in the Findings and Recommendations section of this report, and should be addressed and corrected by Council staff.

This report is for your information and use. The Council's responses to the findings are incorporated into this final report. The Council agreed with our observations and provided a Corrective Action Plan to address the fiscal control weaknesses and recommendations. We appreciate the Council's willingness to implement corrective actions.

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/as

cc: Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer
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Grant Parks, Principal Manager
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Secretary of the Senate
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Sue Parker, Chief Clerk
California State Assembly, Office of the Chief Clerk
Amy Leach, Minute Clerk
California State Assembly, Office of the Chief Clerk
Legislative Counsel
Office of Legislative Counsel

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the Judicial Council of California (Council) staff's compliance with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for all material and significant funds under the administration, jurisdiction, or control of the Council staff.

Our audit found that Council staff substantially complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for the period of July 1, 2019, through June 30, 2020.

However, our audit identified misstated fund balances in the Council's year-end fund financial reports. In four of the 17 funds reviewed, the fund balance accounts were incorrectly stated in their respective trial balance reports. The audit did not include all Judicial Branch funds. We also identified certain expenditure transactions that were miscoded and recorded in incorrect accounts in the Council's general ledger.

Background

The Council is the policymaking body of the state court system, and oversees superior courts in 58 counties, six appellate courts, and the California Supreme Court. The Council sets the direction for improving and advancing the consistent, independent, impartial, and accessible administration of justice for the benefit of the public.

Council staff implements Council policy and provides administrative support to judicial branch entities. Specifically, Council staff members administer accounting, auditing, budgeting, contracting, human resources, procurement, and information technology services. Other responsibilities include facilitating court construction, issuing and renewing court interpreter licenses, providing training and education to new judicial officers, and performing budgeting and administrative tasks for the courts.

We conducted this audit under an Interagency Agreement with the Council, pursuant to Government Code (GC) section 77206(i)(1).

Objective, Scope, and Methodology

We conducted this audit to determine whether the Council complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances for the period of July 1, 2019, through June 30, 2020. To achieve our audit objective, we performed the following procedures.

Preliminary procedures

- Reviewed the *Judicial Council Governance Policies* (November 2017), the fiscal year (FY) 2019-20 Budget Act, the *Manual of State Funds*, Government Code, the California Rules of Court, and relevant internal policies and procedures to identify compliance requirements applicable to Council staff for material and significant revenues, expenditures, and fund balances; and

- Followed up on the status of prior findings identified in the SCO's audit report, issued on June 14, 2019.

Internal control procedures

- Reviewed current policies and procedures, organization charts, and the Council's website;
- Interviewed Council staff members to gain an understanding of the Council's internal control system;
- Determined the internal controls that were significant to our audit objective;
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively; and
- Determined the effect on the audit objective of any identified internal control weaknesses.

Data reliability assessment procedures

- Identified the information systems used to process and account for revenues, expenditures, and fund balance transactions;
- Interviewed staff and reviewed documented policies and procedures regarding security, data entry, processing, and reporting to gain an understanding of information technology systems and data significant to the audit objective;
- Compared data with other sources to determine the completeness and accuracy of the data in the Financial Information System for California (FI\$Cal);
- Evaluated electronic access controls for FI\$Cal; and
- Determined whether the system data was sufficiently reliable for conducting the audit.

Substantive testing procedures for revenues, expenditures, and fund balances

Based on the results of our preliminary procedures and assessments, we designed substantive tests of revenues and expenditures to determine whether they were (1) consistent with governing statutes, rules, and regulations, the policies and procedures of the Council, and the State Administrative Manual; (2) properly supported by documentation; and (3) recorded accurately in the accounting records. Our revenue and expenditure testing included:

- Identifying the total revenue and expenditure amounts recorded in each fund under the administration, jurisdiction, or control of Council staff;
- Determining which funds have revenues and expenditures in excess of two percent of total revenues and expenditures within the fund;

- Selecting representative samples of transactions to test from revenues and expenditure accounts determined above. We selected non-statistical samples on a judgmental basis, and did not project the results of testing to the intended (total) population; and
- Examining transaction samples to verify that revenue and expenditure amounts are accounted for in accordance with Government Code, are properly supported with adequate documentation, and are accurately reported in the accounting records.

Based on the results of our preliminary procedures and assessments, we designed substantive tests of fund balances to determine whether fund balances were recorded on the Legal/Budgetary basis of accounting, and maintained in accordance with fund accounting principles. Our fund balance testing included:

- Judgmentally selecting a sample of funds with fund balances over \$100 million, as of June 30, 2020, or with balances that fluctuated by more than 25 percent from the prior period;
- Recalculating the sampled fund balances to verify that amounts reported are accurate; and
- Considering the results of revenue and expenditure testing to assess whether transactions were reported on the Legal/Budgetary basis of accounting and recorded in accordance with fund accounting principles.

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 limited our audit to evaluating the compliance of revenues, expenditures, and fund balances for material and significant funds under the administration, jurisdiction, or control of Council staff. We did not audit the Council staff's accounting records for the Supreme Court, Court of Appeal, or the Habeas Corpus Resource Center, as the review and approval authority for these transactions remains with those programs.

Conclusion

Our audit found that Council staff substantially complied with statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, our audit identified misstated fund balances among the Council's year-end fund financial reports. These misstatements are described in the Findings and Recommendations section of this report and should be addressed and corrected by Council staff.

Follow-up on Prior Audit Findings

The Council has satisfactorily resolved the findings noted in our prior audit report, issued June 14, 2019, with the exception of current Finding 2. See the Appendix for the current-year status of prior audit findings

**Views of
Responsible
Officials**

We issued a draft report on December 13, 2021. John Wordlaw, Chief Administrative Officer, responded by letter dated December 17, 2021, agreeing with the audit results. This final report includes the Judicial Council of California's response.

Restricted Use

This report is solely for the information and use of 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 and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

Sacramento, California

January 20, 2022

Findings and Recommendations

FINDING 1— Misstated year-end fund financial reporting

We reviewed the FY 2019-20 year-end fund financial reports for 17 of the Council's operating funds and found incorrectly stated fund balance accounts in four of the funds. The four funds include the General Fund (0001), the Public Buildings Construction Fund (0660), the Public Buildings Construction Sub-Fund (0668), and the Trial Court Trust Fund (0932).

For each fund, Council staff members prepare various year-end fund financial reports with a signed certification letter. The reports are assembled in a Certification of Year-End Financial Reports packet and submitted to the SCO, which uses the reports to prepare the State's Budgetary/Legal Basis Annual Report.

The reporting packet includes a Pre-Closing Trial Balance (Report No. 7) and a Post-Closing Trial Balance (Report No. 8). The fund beginning balance account in the current year's Pre-Closing Trial Balance should match the prior year's account ending balance reported in the Post-Closing Trial Balance.

When comparing reports, we found differences in balances between years. In each of the four funds, the fund balance accounts in Pre-Closing Trial Balance report of the audit year FY 2019-20 did not match the the fund balance accounts reported in the prior year's Post-Closing Trial Balance report. We noted the following differences in amounts reported for the fund balance accounts:

Fund	FY 2018-19 (Report No. 8) Ending Balance	FY 2019-20 (Report No. 7) Beginning Balance	Difference
General Fund (0001)	\$ 40,948,598	\$ 7,664,618	\$ 33,283,980
Public Buildings Construction Fund (0660)	239,911,912	(94,700,602)	334,612,514
Public Construction Fund Sub-Account (0668)	2,218,199	(75,318)	2,293,517
Trial Court Trust Fund (0932)	(121,479,460)	(121,323,220)	(156,240)

Differences were reconciled by the Council's accounting staff. Staff members explained that differences occurred in part because of changes in accounting systems. In FY 2018-19, the Council transitioned from an Oracle-based system of accounting and reporting to the FI\$Cal system. In order to properly prepare year-end trial balance reports, Council staff members must request that FI\$Cal build a budgetary/legal ledger report. The budgetary/legal ledger is the basis for Pre-Closing Trial Balance and Post-Closing Trial Balance reports. Council staff members currently prepare year-end reports manually using SCO templates.

We also compared the FY 2019-20 Post-Closing Trial Balance report generated by FISCAL to the Council’s manually prepared Post-Closing Trial Balance report submitted to the SCO. We noted the following differences in fund balance amounts:

Fund	FY 2019-20 FISCAL Post-Closing Trial Balance	FY 2019-20 Council Post-Closing Trial Balance	Difference
Court Interpreters Fund (0327)	\$ (793,518)	\$ (1,226,996)	\$ (433,478)
Public Buildings Construction Fund (0660)	197,149,361	197,049,107	(100,254)
Public Construction Fund Sub-Account (0668)	7,773,872	943,522	(6,830,350)
Trial Court Trust Fund (0932)	(86,680,734)	(86,699,867)	(19,133)

Recommendation

We recommend that Council accounting staff members:

- Request FISCAL support to build the budgetary/legal ledgers; and
- Review their year-end schedule for closing accounts and preparing fund financial reports to anticipate potential delays or difficulties in securing the budgetary/legal ledger report.

**FINDING 2—
Account coding
error**

We reviewed a sample of transactions for the purpose of testing internal controls over expenditure processing and identified a disbursement that was recorded in an incorrect expense account. Our sample selection included a voucher payment of \$14,850,000 to the State Bar of California to provide grant funds for the Homelessness Prevention Legal Services program. The entry was recorded in account number 5340410—External Consulting and Professional Accounting Services, but should have been recorded in account number 5432500—Grant and Subventions – Non-Governmental.

We confirmed the coding error with the Council’s accounting unit. Upon further review of disbursements shown in the general ledger for account number 5340410, we noted additional miscoded entries. A total of \$42,585,555 in combined disbursements was miscoded in account number 5340410.

The first accounting entry in a system that transacts program expenditures is typically a purchase requisition, which is used to create a purchase order. The requisition is the first point of authorization and review in the system’s automated payment and ledger processing. We determined that a purchase requisition had been coded with an incorrect account number.

The money was largely appropriated from the state General Fund (0001); a small amount was appropriated from the state Trial Court Trust Fund (0932). According to the Council’s accounting unit, the error has little to no effect on the State’s financial reporting, although there may be some effect on program budget management and reporting results. Although this error has only a minor effect on the State’s financial reporting, it shows that errors can occur and potentially result in material misstatements.

Recommendation

We recommend that the Council strengthen its review of purchase requisitions and invoices to ensure that coding is correct, and to prevent incorrect information from being recorded in FI\$Cal.

**FINDING 3—
Deficiency in
collection of
outstanding
employee accounts
receivable
(repeat finding)**

In our follow-up on findings from the previous audit report, we found that the Council has partially implemented corrective actions. The Council restored a number of employee accounts receivable that had been written off during FY 2019-20. However, in FY 2019-20, the Council did not write off any receivables deemed uncollectible or apply to the SCO for a discharge of accountability, as recommended in the prior audit report.

The prior report states that discharges from liability are allowed under GC sections 12433 through 12439 (Article 2.5, “Discharge of State Entity from Duty to Collect”) only through an application filed with, and approved by, the State Controller.

The Council has not completed the process of entering and reconciling all previously written off employee accounts receivable balances and obtaining appropriate supporting documentation to correctly recover the amount or write off the receivable. However, Council staff members indicated that they were able to identify accounts receivable that existed as of June 30, 2018. They also indicated that the Council’s accounting staff is continuing to enter and reconcile these amounts, and to work with human resources staff to obtain appropriate supporting documentation for either correctly discharging or recovering the receivables.

This is a repeat of a prior audit finding.

Recommendation

We recommend that Council accounting and human resource staff members:

- Continue their efforts to restore previously-discharged employee receivables;
- Obtain appropriate supporting documentation; and
- Follow guidelines to recover amounts owed from current and former employees. If collection efforts do not result in payment, the Council should follow the suggested process to apply for discharge of accountability with the SCO.

Appendix— Status of Prior Audit Findings

The following table shows the implementation status of corrective actions related to the findings contained in the prior fiscal compliance audit report dated June 14, 2019:

Prior Audit Finding Number	Prior Audit Finding Title	Implementation Status
1	Inadequate segregation of duties within the payroll function	Fully implemented
2	Deficiency in collection of outstanding employee accounts receivables	Partially implemented – see current Finding 3
3	Lack of reconciliation process for employee accounts receivables	Fully implemented

**Attachment—
Judicial Council of California’s
Response to Draft Audit Report**



JUDICIAL COUNCIL OF CALIFORNIA

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TANI G. CANTIL-SAKAUYE
Chief Justice of California
Chair of the Judicial Council

MARTIN HOSHINO
Administrative Director

JOHN WORDLAW
Chief Administrative Officer

December 17, 2021

Ms. Kimberly Tarvin, CPA
Chief, Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, California 94250

****Delivered via email****

Dear Ms. Tarvin:

The Judicial Council of California is committed to financial accountability and transparency, and I thank you and your audit staff for their detailed review of our operations for fiscal year 2019–20. The biennial audit performed by the State Controller's Office (SCO) is an important management tool to ensure that we continue to follow the State's accounting and administrative rules, while identifying opportunities for improvement.

I am pleased that the SCO's report concluded that the Judicial Council "substantially complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances for the period of July 1, 2019, through June 30, 2020." Nevertheless, the Judicial Council recognizes and places great importance on addressing the three audit findings noted in the draft audit report. We agree with the SCO's audit findings, and we will review our fiscal and administrative practices to address the report's recommendations. Each of the report's recommendations (shown in italics) and our responses are provided below.

Recommendation #1—Improving Year-End Reporting of Fund Balance

We recommend that Council accounting staff members:

- *Request FISCAL support to build the budgetary legal ledgers; and*
- *Review their year-end schedule for closing accounts and preparing fund financial reports to anticipate potential delays or difficulties in securing the budgetary legal ledger report.*

Judicial Council’s Response

The audit noted discrepancies between the fund balance amounts reported to the SCO—under our year-end budgetary/legal basis reporting—and comparable amounts recorded in FISCAL. The discrepancies were the result of accounting staff manually preparing year-end reports for the SCO before finalizing transactions in the accounting system and submitting a “ticket” to FISCAL to build the budgetary legal ledger. Accounting staff decided to submit manually generated reports out of a desire to meet the SCO’s reporting deadlines while also satisfying the review needs of other internal stakeholders (such as the council’s budget staff).

The Judicial Council—like many other state departments—continues to learn and gain familiarity with FISCAL and the year-end closing process. Going forward, the council’s accounting staff are considering how best to modify their internal year-end processing and review schedules—which affect other units within the council—to ensure that they can request from FISCAL the budgetary legal ledger in time to prepare and submit the required year-end reports to the SCO. The Judicial Council will coordinate with the SCO and FISCAL regarding whether additional steps are required for its year-end budgetary/legal basis reporting for fiscal year 2019–20.

Recommendation #2—Recording Expenditures in the Proper General Ledger Account

We recommend that the Council strengthen its review of purchase requisitions and invoices to ensure that coding is correct, and to prevent incorrect information from being recorded in FISCAL.

Judicial Council’s Response

The annual Budget Act appropriates funding to the Judicial Council for grants to the State Bar under the Equal Access Fund grant program. The Judicial Council’s accounting staff agree that these transactions should have been recorded as grants instead of as expenditures for external consulting services. For context, the State Bar is the primary administrator of the grant program, and its responsibilities include selecting specific grant recipients and monitoring their

Ms. Kimberly Tarvin, CPA

December 17, 2021

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compliance with grant rules. Each year, council staff fully brief members of the Judicial Council on the Legislature's appropriations and the resulting amounts to be provided to the State Bar.

The SCO's audit finding correctly takes issue with how these expenditures were classified within FISCAL (as consultant costs instead of grant spending); however, we believe this error does not affect the total amounts the council reported for its revenues, expenditures, and fund balance.

The council's accounting, budget, and program staff will discuss how best to implement a control to ensure that the appropriate general ledger code is assigned and reviewed before recording the expenditure in FISCAL.

Recommendation #3—Employee Accounts Receivable

We recommend that Council accounting and human resources staff members:

- *Continue their efforts to restore previously discharged employee receivables;*
- *Obtain appropriate supporting documentation; and*
- *Follow guidelines to recover amounts owed from current and former employees. If collection efforts do not result in payment, the Council should follow the suggested process to apply for discharge of accountability with the SCO.*

Judicial Council's Response

Judicial Council staff agree with this finding and recommendation. Staff appreciate the SCO's conclusion that we have corrected a previous and related finding regarding our reconciliations of employee accounts receivable. We also agree that additional emphasis is needed to correct this repeat finding. Staff from accounting and human resources will be meeting with the council's executive management to develop a plan for finalizing our corrective action. Our goal is to have this issue resolved before the SCO's next audit of the council.

Again, the Judicial Council greatly appreciates the work and professionalism of the SCO's audit team. Your review and observations will help us to further refine and improve our processes. If

Ms. Kimberly Tarvin, CPA
December 17, 2021
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you have any questions regarding this response, please contact Mr. Grant Parks, Principal Manager, Judicial Council Audit Services, for more information.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Wordlaw".

John Wordlaw
Chief Administrative Officer
Judicial Council

JW/GP

cc: Joel James, Bureau Chief, Division of Audits, State Controller's Office
Martin Hoshino, Administrative Director, Judicial Council
Millicent Tidwell, Chief Deputy Director, Judicial Council
Jason Lopez, Director, Branch Accounting and Procurement, Judicial Council
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