

# **SUPERIOR COURT OF CALIFORNIA, COUNTY OF PLACER**

Audit Report

## **VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES**

*July 1, 2017, through June 30, 2018*



**BETTY T. YEE**  
California State Controller

March 2021



**BETTY T. YEE**  
California State Controller

March 17, 2021

Jake Chatters, Court Executive Officer  
Superior Court of California, County of Placer  
P.O. Box 619072  
Roseville, CA 95661

Dear Mr. Chatters:

The State Controller's Office audited the Superior Court of California, County of Placer (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, we noted a weakness in the Court's internal controls for recording accrual-related accounting adjustments. This issue is described in the Finding and Recommendation section of our report.

This report is for your information and use. The Court's response to the finding is included in this final report. The Court agreed with our finding and provided a Corrective Action Plan to address the internal control weakness. We appreciate the Court's willingness to implement a corrective action.

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

Sincerely,

*Original signed by*

MICHAEL REEVES, CPA  
Acting Chief, Division of Audits

MR/as

cc: Julie Kelly, Court Fiscal Manager  
Superior Court of California, County of Placer  
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 and Director of Finance  
Judicial Council of California  
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California Department of Finance  
Emma Jungwirth, Principal Program Budget Analyst  
California Department of Finance

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>5</b>
<b>Follow-up on Prior Audit Finding .....</b>	<b>6</b>
<b>Views of Responsible Officials .....</b>	<b>6</b>
<b>Restricted Use .....</b>	<b>6</b>
<b>Schedule 1—Summary of Revenues and Revenue Test Results .....</b>	<b>7</b>
<b>Schedule 2—Summary of Expenditures and Expenditure Test Results .....</b>	<b>8</b>
<b>Schedule 3—Summary of Fund Balances and Fund Balance Test Results .....</b>	<b>9</b>
<b>Finding and Recommendation .....</b>	<b>10</b>
<b>Attachment—Superior Court of California, County of Placer Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Placer (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. The audit period was July 1, 2017, through June 30, 2018.

Our audit found that the Court complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, in the course of testing, we noted a weakness in the Court's internal control for recording accrual-related accounting adjustments. This issue is described in the Finding and Recommendation section.

## Background

Superior Courts (trial courts) are located in each of California's 58 counties and follow the California Rules of Court (CRC), established through Article IV of the Constitution of California. 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 CRC. Trial courts are also required to comply with various other state laws, rules, and regulations, much of which are codified in Government Code (GC) sections 68070 through 77013, Title 8, The Organization and Government of Courts.

Pursuant to CRC Rule 10.804, the JCC adopted the *Trial Court Financial Policies and Procedures Manual*, which provides guidance and directives for trial court fiscal management. The manual contains regulations establishing budget procedures, recordkeeping practices, accounting standards, and other financial guidelines. The manual is comprised of 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 is the primary source of funding for trial court operations. The JCC allocates monies in the Trial Court Trust Fund to trial courts. The Trial Court Trust Fund'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) 2017-18, the Court (County of Placer) generated approximately 81% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 118 staff members to fulfill the operational and administrative activities necessary to serve Placer County's population of approximately 389,047. The Court incurred approximately \$20,844,402 million in expenditures for the period of July 1, 2017, through June 30, 2018. Of this amount, approximately 72% represents employee salaries and benefits.

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

We performed the audit at the request of the JCC. The authority is provided by Interagency Agreement No. 38881, dated May 28, 2019, between the SCO and the JCC.

## **Objective, Scope, and Methodology**

The objective of our audit was to determine whether the Court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control.

The audit period was July 1, 2017, through June 30, 2018.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with authorizing Government Code sections, properly supported by documentation, and recorded accurately in the accounting records;
- Expenditures were incurred pursuant to authorizing Government Code sections, 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:

#### General Procedures

- Reviewed the *Judicial Council Governance Policies (November 2017)*, the Budget Act, the *Manual of State Funds*, applicable Government Code and California Rules of Court sections, the *Trial Court Financial Policies and Procedures Manual, Eighth Edition December 2016*, and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

#### Internal Controls

- 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;
- Interviewed Court personnel and prepared internal control questionnaires to identify internal accounting controls;
- 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;
- Reviewed the Court's documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances;
- Evaluated electronic access controls and data reliability of the Court's financial system; and
- Selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 40 revenue items and 44 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the impact of the identified errors. Errors were not projected to the population.

We designed our testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our testing methodology and results are summarized as follows:

#### Revenue Testing

- We tested revenue transactions and account balances in the General Fund, Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether revenue accounting was consistent with authorizing Government Code sections, properly supported by documentation, and recorded correctly in the accounting system.
- The sample consisted of 67 transactions selected to test both internal controls and account recording.

- We tested \$18,467,318 of \$21,099,956, or 87.5% of total revenues.

We found no material errors in the recording of transactions. However, we noted an internal control deficiency related to the recording of accrual-related accounting adjustments.

The details of our finding are provided in the Finding and Recommendation section of this report.

Schedule 1, Summary of Revenues and Revenue Test Results, presents total revenues by account and related amounts tested.

#### Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections, 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. We stratified accounts into two groups comprised of personnel services (payroll) and operating expenditures (non-payroll).
- To test payroll, we selected the two pay periods occurring in April 2018 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 35 of 118 employees from the payroll registers and verified that:
  - Employee timesheets included supervisory approval;
  - Regular earnings and other supplemental pay was supported by salary schedules and Personnel Action Forms;
  - Employer retirement contributions and payroll taxes were entered into the general ledger accurately; and
  - Health insurance premiums shown on the payroll register agreed with the employees' benefit election forms.
- To test material non-payroll accounts, we:
  - Used a sample of 44 expenditure transactions to test both internal controls and the accuracy of the Court's recording of transactions;
  - Selected 13 expenditure transactions that exceeded \$40,000;
  - Sample-tested an additional 23 transactions from the remaining population; and
  - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$1,865,458 of \$28,844,402, or 8.9% of total expenditures.

We found no material errors in the recording of transactions. However, we noted an internal control deficiency related to the recording of accrual-related accounting adjustments.



The details of our finding are provided in the Finding and Recommendation section of this report.

Schedule 2—Summary of Expenditures and Expenditure Test Results, presents total expenditures by account and related amounts tested.

#### Fund Balance Testing

- We judgmentally selected the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund because these funds had significant balances in revenue and expenditure accounts;
- We tested revenue and expenditure transactions in the General Fund, Non-Grant Special Revenue Fund, and Grant Special Revenue Fund to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedule 2);
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation; and
- We recalculated sampled funds to ensure that fund balances as of June 30, 2018, 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 under the authority of GC section 77206(h) and 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 review of the court's internal controls to gaining an understanding of the significant internal controls within the context of 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. However, in the course of testing, we noted a weakness in the Court's internal control for recording accrual-related accounting adjustments. This issue is described in the Finding and Recommendation section.

**Follow-up on  
Prior Audit  
Finding**

This is the first audit performed by SCO at the Court pursuant to GC section 77206(h)(2); therefore, there are no prior audit findings to address in this report. The Court was previously audited by JCC's Internal Audit Services, which issued a report September 2017 We are not including any follow-up to matters presented in JCC's prior report.

**Views of  
Responsible  
Officials**

We issued a draft audit report on February 22, 2021. Jake Chatters, Court Executive Officer responded by letter dated March 3, 2021 (Attachment), agreeing with the audit results. This final audit report includes the Court's response.

**Restricted Use**

This report is solely intended for the information and use of the Court; JCC, and 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](http://www.sco.ca.gov).

*Original signed by*

MICHAEL REEVES, CPA  
Acting Chief, Division of Audits

March 17, 2021

**Schedule 1—  
Summary of Revenues and Revenue Test Results  
July 1, 2017, through June 30, 2018**

Revenue Accounts	Total Revenues <sup>1</sup>	Percentage	Amounts Tested <sup>1</sup>	Percentage	Error Amounts <sup>4</sup>
<u>State Financing Sources<sup>2</sup></u>					
Trial Court Trust Fund <sup>3</sup>	\$ 17,053,002	80.8%	\$ 17,053,002	100%	\$ -
Improvement and Modernization Fund	42,574	0.2%	42,574	100%	-
Court Interpreter	325,327	1.5%	33,212	10.2%	-
MOU Reimbursements <sup>3</sup>	1,032,081	4.9%	296,971	28.8%	-
Other Miscellaneous	<u>634,797</u>	3.0%	<u>634,797</u>	100%	-
Subtotal	19,087,781		18,060,556		-
<u>Grants<sup>2</sup></u>					
AB 1058 Commissioner/Facilitator	400,408	1.9%	22,552	6%	-
Other Judicial Council Grants	<u>85,602</u>	0.4%	<u>70,717</u>	82.6%	-
Subtotal	486,009		93,269		-
<u>Other Financing Sources<sup>2</sup></u>					
Interest Income	105,244	0.5%	334	0.3%	-
Local Fees	337,202	1.6%	18,902	5.6%	-
Non-Fee Revenues	16,608	0.1%	688	4.1%	-
Prior Year Revenue	(10,200)	0.0%	-	0.0%	-
County Program – Restricted	6,469	0.0%	600	9.3%	-
Reimbursement Other <sup>3</sup>	1,069,472	5.1%	292,862	27.4%	-
Other Miscellaneous	<u>1,371</u>	0.0%	<u>107</u>	7.8%	-
Subtotal	1,526,166		313,493		-
Total Revenues	<u>\$ 21,099,956</u>	100%	<u>\$ 18,467,318</u>	87.5%	<u>\$ -</u>

<sup>1</sup> Differences due to rounding.

<sup>2</sup> Tested account internal controls.

<sup>3</sup> Material account.

<sup>4</sup> No errors noted.

**Schedule 2—  
Summary of Expenditures and Expenditure Test Results  
July 1, 2017, through June 30, 2018**

Expenditure Accounts	Total Expenditures <sup>1</sup>	Percentage	Amounts Tested <sup>1</sup>	Percentage	Error Amounts <sup>4</sup>
<b>Payroll<sup>2</sup></b>					
Salaries – Permanent <sup>3</sup>	\$ 8,762,255	42.0%	\$ 173,316	2.0%	\$ -
Temp Help	-	0.0%	-	0.0%	-
Overtime	46,550	0.2%	-	0.0%	-
Staff Benefits <sup>3</sup>	6,175,855	29.6%	58,421	0.9%	-
Subtotals	14,984,660		231,737		-
<b>Operating Expenses and Equipment<sup>2</sup></b>					
General Expense	507,314	2.4%	2,728	0.5%	-
Printing	27,290	0.1%	7,145	26.2%	-
Telecommunications	191,032	0.9%	780	0.4%	-
Postage	89,185	0.4%	4,861	5.5%	-
Insurance	8,520	0.0%	6,615	77.6%	-
In-State Travel	72,198	0.3%	347	0.5%	-
Out-of-State Travel	2,172	0.0%	221	10.2%	-
Training	41,971	0.2%	12,420	29.6%	-
Security Services	791	0.0%	35	4.5%	-
Facility Operations	125,988	0.6%	1,665	1.3%	-
Utilities	504	0.0%	38	7.5%	-
Contracted Services <sup>3</sup>	2,889,148	13.9%	696,676	24.1%	-
Consulting and Professional Services	23,216	0.1%	75	0.3%	-
Information Technology	805,119	3.9%	2,085	0.3%	-
Major Equipment	151,586	0.7%	47,260	31.2%	-
Other Items of Expense	7,852	0.0%	339	4.3%	-
Subtotals	4,943,886		783,291		-
<b>Special Items of Expense<sup>2</sup></b>					
Grand Jury	1,748	0.0%	292	16.7%	-
Jury Costs	64,108	0.3%	138	0.2%	-
Judgements, Settlements, Claims	-	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other <sup>3</sup>	850,000	4.1%	850,000	100.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior-Year Expense Adjustment	-	0.0%	-	0.0%	-
Subtotals	915,856		850,430		-
Total Expenditures	\$ 20,844,402	100%	\$ 1,865,458	8.9%	\$ -

<sup>1</sup> Differences due to rounding.

<sup>2</sup> Tested account internal controls.

<sup>3</sup> Material account.

<sup>4</sup> No errors noted.

**Schedule 3—  
Summary of Fund Balances and Fund Balance Test Results  
July 1, 2017, through June 30, 2018**

	General Fund <sup>1</sup>	Non-Grant Special Revenue Fund <sup>1</sup>	Grant Special Revenue Fund <sup>1</sup>	Proprietary Fund <sup>1</sup>	Total <sup>1</sup>
Beginning Balance	\$ 951,786	\$ 467,322	\$ -	\$ 361,625	\$ 1,780,733
Revenues	19,754,976	160,953	486,009	698,018	21,099,956
Expenditures	(19,307,026)	(172,140)	(485,093)	(880,143)	(20,844,402)
Transfers In	-	14,864	-	-	14,864
Transfers Out	(13,948)	14,864	(917)	-	(0)
Ending Balance	<u>\$ 1,385,788</u>	<u>\$ 485,864</u>	<u>\$ 0</u>	<u>\$ 179,500</u>	<u>\$ 2,051,152</u>
<u>Error Amounts</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

<sup>1</sup> Differences due to rounding.

# Finding and Recommendation

**FINDING—  
Internal control  
deficiency related  
to the recording of  
account  
adjustments**

The Court did not record account adjustments to reclassify certain prior-year transactions that affect balances reported in the current-year revenue and expenditure accounts. The following are conditions in which adjustments were not recorded:

- We noted differences between revenue accrued in the prior year (FY 2016-17) and amounts actually received in the current year (FY 2017-18). Revenues received were less than amounts accrued. Differences can occur because accruals are estimated at year end and should be recorded as an adjustment in General Ledger Account No. 899910 – Prior-Year Revenue Adjustment. The Court indicated that it had not previously entered adjustments for accrual differences after the close of the fiscal year.
- We also noted instances in which expenditure transactions that took place near the close of the prior year were not accrued, but instead were recorded in current-year operating accounts. Recording prior-year transactions in a current year occurs because payment information may not be known in time to accrue the transactions before closing the prior year-end financial ledgers. The Court should record invoice payments for the prior year in General Ledger Account No. 999910 – Prior-Year Expense Adjustment.

Because the transactions that we identified produced only a negligible effect on the specific revenue and expenditure account balances, we did not quantify the errors. Both adjustment accounts indicated above are included in the financial statements of revenues and expenditures, but the financial statements appropriately isolate prior-year transactions to prevent them from being comingled in current-year operating accounts. Therefore, neither the revenue differences nor the invoice payment and expenditure amounts were material to the financial statements as a whole.

However, the volume of transactions that we reviewed was limited by sampling, and other transactions may exist that we did not identify. The Prior-Year Adjustment accounts effectively serve to true-up accounting information for financial and budgetary reporting. Failure to adjust accounts may lead to material financial misstatements.

We conferred with staff from the JCC's Administrative Division regarding trial court accounting procedures for accruals and adjustments. The Administrative Division staff provided an extract of recent guidance from a FY 2019-20 year-end accounting manual communicated to trial courts in an effort to clarify the accounting procedures. The guidance is as follows:

### **Automated Accrual Reversal Process**

As previously discussed, most expenditure and revenue accruals are automatically reversed in the new year by placing Z2 and 07/01/2020 in the last two columns of the ZREVERSAL Journal Entry template. Once period 13 is closed, these adjusting entries will automatically be reversed with a posting date of 07/01/2020.

Note: If an accrual was not recorded at year end or the difference between the accrual amount and the actual amount received/paid is deemed material, then prior-year [adjustment] accounts are to be used in the subsequent year.

The Court expressed appreciation for the additional guidance provided by the JCC in 2020. The Court noted that such guidance had not been provided in prior years, nor had it been expressed in prior audits performed by the JCC.

CRC Rule 10.804(a) states:

As part of its responsibility for regulating the budget and fiscal management of the trial courts, the Judicial Council adopts *The Trial Court Financial Policies and Procedures Manual*. The manual contains regulations establishing budget procedures, recordkeeping, accounting standards, and other financial guidelines for superior courts. The manual sets out a system of fundamental internal controls that will enable the trial courts to monitor their use of public funds, provide consistent and comparable financial statements, and demonstrate accountability.

*Trial Court Financial Policies and Procedures Manual*, Eighth Edition, Policy No. Fin 5.02, section 3.0 states:

It is the policy of the trial court to establish an accounting system with a chart of accounts and general ledger that enables the court to record financial transactions with accuracy and consistency. All of the trial courts use a single chart of accounts. This single set of accounts ensures that the financial position of all courts is reported consistently and clearly. The actual accounts each court utilizes may vary depending on the complexity of operations.

The Trial Court Chart of Accounts describes General Ledger Account No. 999910 – Prior-Year Expense Adjustment as the account used for recording “expenses related to prior-year activity.”

The Chart of Accounts also describes General Ledger Account No. 899910 – Prior-Year Revenue Adjustment as the account used to record revenue that was earned in the prior year, but not accrued. Guidance from the JCC also provides that adjustment accounts be used to record adjustments of accrual-related accounting differences.

#### Recommendation

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, according to the JCC’s accounting guidance.

**Attachment—  
Superior Court of California, County of Placer  
Response to Draft Audit Report**

---





Superior Court of the State of California  
In and For The County of Placer  
Roseville, California

JAKE CHATTERS  
COURT EXECUTIVE OFFICER  
AND CLERK OF THE SUPERIOR COURT/  
JURY COMMISSIONER  
(916) 408-6186 FAX (916) 408-6188

March 3, 2021

Joel James, Chief  
Financial Audits Bureau  
State Controller's Office  
Transmitted via email to: [jjames@sco.ca.gov](mailto:jjames@sco.ca.gov)

Re: Response to Superior Court of California, County of Placer – Validity of Recorded Revenues,  
Expenditures, and Fund Balances Audit Report

Bureau Chief James,

Thank you for the opportunity to respond to the State Controller's Office's Audit Report on the Superior Court of Placer County's Validity of Recorded Revenues, Expenditures, and Fund Balances.

The court is pleased, and agrees, with the auditors' finding that the court "complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances." We are committed to accurate and transparent financial records. The court further agrees with the single finding regarding the need for an adjustment to the general ledger accounts used to document variance in prior year revenues and expenditures. This change in practice has been made and is reflected in documentation of any prior year adjustments related to FY 2019/2020 that are reflected in FY 2020/2021 financials. This practice will continue into future years.

We would like to thank the State Controller's Office and the auditors assigned to this effort for their diligence and professionalism, especially given the disruption caused by the COVID-19 pandemic.

Sincerely,

Jake Chatters,  
Court Executive Officer

cc: Hon. Alan V. Pineschi, Presiding Judge, Superior Court of Placer County  
Julie Kelly, Court Fiscal Services Director, Superior Court of Placer County  
Grant Parks, Principal Manager, Audit Services, Judicial Council of California

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