

**SUPERIOR COURT OF CALIFORNIA,
COUNTY OF STANISLAUS**

Audit Report

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

July 1, 2018, through June 30, 2019



BETTY T. YEE
California State Controller

March 2021



BETTY T. YEE
California State Controller

March 16, 2021

Hugh Swift, Court Executive Officer
Superior Court of California, County of Stanislaus
880 11th Street
Modesto, CA 95354

Dear Mr. Swift:

The State Controller's Office audited the Superior Court of California, County of Stanislaus (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, 2018, through June 30, 2019.

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

This report is for your information and use. The Court agreed with our conclusions.

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: Ronna Uliana, Assistant Court Executive Officer
Superior Court of California, County of Stanislaus
Reena Amin, Fiscal Services Manager
Superior Court of California, County of Stanislaus
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
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Grant Parks, Principal Manager
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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 Stanislaus (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, 2018, through June 30, 2019.

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 (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) 2018-19, the Court (County of Stanislaus) generated approximately 81% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 243 staff members to fulfill the operational and administrative activities necessary to serve Stanislaus County's population of 554,603. The Court incurred approximately \$30,660,563 million in expenditures for the period of July 1, 2018, through June 30, 2019. Of this amount, approximately 77% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, a Non-Grant Special Revenue Fund, and a Grant Special Revenue Fund. All funds 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, 2018, through June 30, 2019.

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, Ninth Edition, June 2018*, 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 40 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 below:

Revenue Testing

- We tested revenue transactions and account balances in the General Fund, the 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. Individual accounts with balances exceeding 4% of total revenues are considered material and significant.

- We tested 100% of the revenue balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$31,358,163 for FY 2018-19. The sample consisted of 40 transactions selected to test both internal controls and account recording.
- We tested \$28,495,643 of \$31,358,163, or 91% of total revenues.

We found no errors in the recording of transactions. 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, the Non-Grant Special Revenue Fund, and the 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 2019 and reconciled the salaries and benefit expenditures shown on the payroll registers to the general ledger. We further selected 25 of 246 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:
 - Selected all expenditure transactions that exceeded \$60,000;
 - Sample-tested an additional 23 transactions from the remaining population, in addition to the initial 40 expenditure transactions selected for testing internal controls;
 - Used a sample of 40 expenditure transactions to test both internal controls and the accuracy of recording transactions; and
 - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$3,524,536 of \$30,660,563, or 11.5% of total expenditures.

We found no errors in the recording of transactions. 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, the Non-Grant Special Revenue Fund, and the 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, the Non-Grant Special Revenue Fund, and the 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, 2019, 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.

Follow-up on Prior Audit Findings

This is the first audit performed by the 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 April 2012. We are not including any follow-up to matters presented in JCC's prior report.

Views of Responsible Officials

We discussed our audit results with the Court's representatives during an exit conference conducted on November 19, 2020. Hugh Swift, Court Executive Officer; Ronna Uliana, Assistant Court Executive Officer; and Reena Amin, Fiscal Services Manager, agreed with the audit results. Mr. Swift declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely intended for the information and use of the Superior Court of California, County of Stanislaus; 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

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

March 16, 2021

**Schedule 1—
Summary of Revenues and Revenue Test Results
July 1, 2018, through June 30, 2019**

Revenue Accounts ¹	Population		Tested		Error Amount
	Totals	Percentage	Amounts	Percentage	
State Financing Sources					
Trial Court Trust Fund ^{2,3}	\$ 25,404,787	81.01%	\$ 25,404,787	100%	\$ -
Improvement and Modernization Fund ²	69,333	0.22%	10,641	15.35%	-
Court Interpreter ^{2,3}	1,552,365	4.95%	1,552,365	100%	-
MOU Requirements ²	494,973	1.58%	44,576	9.01%	-
Other Miscellaneous ^{2,3}	1,305,229	4.16%	1,305,229	100%	-
Sub-total	28,826,686		28,317,598		
Grants					
AB 1058 Commissioner/Facilitator ²	1,160,247	3.70%	97,274	8.38%	-
Other Judicial Council Grants ²	139,610	0.45%	20,300	14.54%	-
Sub-total	1,299,858		117,573		
Other Financing Sources					
Interest Income ²	149,729	0.48%	305	0.20%	-
Local Fees ²	220,075	0.70%	2,809	1.28%	-
Enhanced Collections ²	307,122	0.98%	9,286	3.02%	-
Escheatment ²	4,582	0.01%	1,224	26.71%	-
Prior Year Revenue ²	(37,935)	-0.12%	37,591	99.09%	-
County Program - Restricted ²	163,769	0.52%	7,340	4.48%	-
Reimbursement Other ²	418,398	1.33%	1,383	0.33%	-
Other Miscellaneous ²	5,878	0.02%	535	9.10%	-
Sub-total	1,231,619		60,472		
Total Revenues	\$ 31,358,163	100%	\$ 28,495,643	90.87%	\$ -

¹ Differences due to rounding.

² Tested accounting internal controls.

³ Material account.

Schedule 2— Summary of Expenditures and Expenditure Test Results July 1, 2018, through June 30, 2019

Expenditure Accounts ¹	Population		Tested		Error
	Totals	Percentage	Amount	Percentage	Amount
<u>Personnel Services²</u>					
Salaries – Permanent ³	\$ 14,138,792	46.11%	\$ 1,093,953	7.74%	\$ -
Temp Help	-	0%	-	0%	-
Overtime	74,399	0.24%	3,194	4.29%	-
Staff Benefits ³	9,264,089	30.22%	714,809	7.72%	-
Sub-total	23,477,281		1,811,956		-
<u>Operating Expenses and Equipment²</u>					
General Expense ³	809,346	2.64%	2,929	0.36%	-
Printing	68,684	0.22%	609	0.89%	-
Telecommunications	274,276	0.89%	5,917	2.16%	-
Postage	101,809	0.33%	4,475	4.40%	-
Insurance	8,287	0.03%	4,974	60.02%	-
In-State Travel	32,424	0.11%	622	1.92%	-
Out of State Travel	5,505	0.02%	551	10.01%	-
Training	21,344	0.07%	420	1.97%	-
Security Services	43,292	0.14%	1,700	3.93%	-
Facility Operations	811,574	2.65%	14,922	1.84%	-
Utilities	3,070	0.01%	149	4.86%	-
Contracted Services ³	2,365,242	7.71%	39,493	1.67%	-
Consulting and Professional Services	184,258	0.60%	1,469	0.80%	-
Information Technology ³	1,561,753	5.09%	1,196,723	76.63%	-
Major Equipment	498,819	1.63%	52,160	10.46%	-
Other Items of Expense	6,312	0.02%	221	3.51%	-
Sub-total	6,795,992		1,327,335		-
<u>Special Items of Expense</u>					
Grand Jury ²	1,601	0.01%	15	0.91%	-
Jury Costs ²	109,319	0.36%	15	0.01%	-
Judgements, Settlements, Claims	-	0%	-	0%	-
Debt Service	-	0%	-	0%	-
Other ²	382,443	1.25%	382,443	100%	-
Capital Costs	-	0%	-	0%	-
Internal Cost Recovery	-	0%	-	0%	-
Prior Year Expense Adjustment ²	(106,073)	0.35%	2,782	2.62%	-
Sub-total	387,290		385,254		-
Total Expenditures	\$ 30,660,563	100%	\$ 3,524,546	11.50%	\$ -

¹ Differences due to rounding.

² Tested accounting internal controls.

³ Material account.

Schedule 3—
Summary of Fund Balances and Fund Balance Test Results
July 1, 2018, through June 30, 2019

Balance ¹	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 670,769	\$ 108,956	\$ -	\$ 779,725
Revenues	29,406,784	651,522	1,299,858	31,358,163
Expenditures	(28,790,752)	(479,925)	(1,389,886)	(30,660,563)
Transfers In	-	-	90,029	90,029
Transfers Out	(90,029)	-	-	(90,029)
Ending Balance	<u>\$ 1,196,772</u>	<u>\$ 280,553</u>	<u>\$ -</u>	<u>\$ 1,477,325</u>
Error Amount				
Revenues	-	-	-	-
Expenditures	-	-	-	-
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding.

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