

SUPERIOR COURT OF CALIFORNIA, COUNTY OF KERN

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 25, 2021

Tamarah Harber-Pickens, Court Executive Officer
Superior Court of California, County of Kern
1415 Truxtun Avenue, Room 212
Bakersfield, CA 93301

Dear Ms. Harber-Pickens:

The State Controller's Office audited the Superior Court of California, County of Kern (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. However, our audit identified instances of internal control deficiencies in which the Court selected improper accounts for both recording year-end revenue distributions from the prior-year and, separately, for recording current-year operating expenditures. We also noted an internal control deficiency over the Court's authority to approve invoice payments. The deficiencies are described in the Findings and Recommendations section of this report.

This report is for your information and use. The Court's responses to the findings are included in this final report. The Court agreed with our findings and provided a corrective action plan to address the fiscal control weaknesses. We appreciate the Court'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

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

MR/as

cc: Travis Andreas, Deputy Court Executive Officer
Superior Court of California, County of Kern
Christin Alburger, Deputy Court Executive Officer
Superior Court of California, County of Kern
Kevin Fawke, Fiscal Officer
Superior Court of California, County of Kern
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
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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Kern (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. However, our audit identified instances of internal control deficiencies in which the Court selected improper accounts for both recording year-end revenue distributions from the prior-year and, separately, for recording current-year operating expenditures. We also noted an internal control deficiency over the Court's authority to approve invoice payments. The deficiencies are described in the Findings and Recommendations 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) 2018-19, the Court (County of Kern) generated approximately 66% of its total revenues from Trial Court Trust Fund allocations.

The Court employs approximately 527 staff members to fulfill the operational and administrative activities necessary to serve Kern County's population of approximately 907,500. The Court incurred \$83,713,339 million in expenditures for the period of July 1, 2018, through June 30, 2019. Of this amount, approximately 69% represents employee salaries and benefits.

Funds under the Court's control include a General Fund, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, Proprietary Fund, and a Fiduciary Fund. All funds that had revenue accounts and expenditure accounts with reported balances at year-end in excess of 4% of total revenues and expenditures, respectively, 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 65 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 tested 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, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and the Proprietary Fund to determine whether revenue accounting was consistent with authorizing Government Code

sections, properly supported by documentation, and recorded correctly in the accounting system.

- We tested 76% of the revenue balances reported in all revenue accounts that exceeded 4% of the Court's total revenues of \$83,596,716 for FY 2018-19. Procedures included both analytical comparisons and tests of transaction details through sampling. We compared authorized revenue allocations and recorded amounts for significant and material accounts. An additional 40 transactions were selected from accounts (including non-significant accounts) to test both internal controls over processes and account recording.
- We tested \$64,716,802 of \$83,596,716, or 77% of total revenues.

We found certain prior-year revenues that were misclassified in accounts reported in the Court's financial statements. However, the Court's total reported revenues were not misstated.

Details of our findings are provided in the Findings and Recommendations section of this report. Schedule 1—Summary of Revenues and Revenue Test Results, presents total revenues by account, related amounts tested, and error amounts noted.

Expenditure Testing

- We tested expenditure transactions and account balances in the General Fund, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and Proprietary 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 527 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:
 - Judgmentally selected 20 expenditure transactions that exceeded \$100,000;
 - Sample-tested an additional 27 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 \$6,105,540 of \$83,713,339, or 7.3% of total expenditures.

We found an internal control deficiency relating to the assignment of accounts used to classify and record expenditure transactions. We also found a deficiency regarding the approval of invoice payments for some high-dollar expenditure transactions.

Details of our findings are provided in the Findings and Recommendations section of this report. Schedule 2—Summary of Expenditures and Expenditure Test Results, presents total expenditures by account, related amounts tested, and error amounts noted.

Fund Balance Testing

- We judgmentally selected the General Fund, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and Proprietary Fund because these funds had significant balances in revenue and expenditure accounts;
- We tested revenue and expenditure transactions in the General Fund, Special Revenue Non-Grant Fund, Special Revenue Grant Fund, and Proprietary 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, changes in fund balances, and error amounts noted.

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, our audit identified instances of internal control deficiencies in which the Court selected improper accounts for both recording year-end revenue distributions from the prior-year and, separately, for recording current-year operating expenditures. We also noted an internal control deficiency over the Court’s authority to approve invoice payments. The deficiencies are described in the Findings and Recommendations section.

**Follow-up on
Prior Audit
Findings**

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 August 2016. 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 March 5, 2021. Travis Andreas, Deputy Court Executive Officer responded by letter dated March 10, 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.

Original signed by

MICHAEL REEVES, CPA
Acting Chief, Division of Audits

March 25, 2021

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

Revenue Accounts ¹	Total Revenues	Percentage	Amounts Tested	Percentage	Error Amounts ²
State Financing Sources³					
Trial Court Trust Fund ⁴	\$ 55,039,582	65.8%	\$ 55,039,582	100.0%	\$ -
Improvement and Modernization Fund	113,238	0.1%	89,646	79.2%	-
Court Interpreter ⁴	4,019,817	4.8%	4,019,817	100.0%	145,305
MOU Requirements ⁴	4,719,965	5.6%	904,388	19.2%	-
Other Miscellaneous ⁴	3,544,268	4.2%	3,544,268	100.0%	-
Subtotal	67,436,869		63,597,700		145,305
Grants³					
AB 1058 Commissioner/Facilitator	1,557,001	1.9%	51,665	3.3%	10,844
Other Judicial Council Grants	14,911	0.0%	7,456	50.0%	-
Subtotal	1,571,912		59,120		10,844
Other Financing Sources³					
Interest Income	372,898	0.4%	395	0.1%	-
Local Fees	1,055,391	1.3%	62,602	5.9%	-
Non-Fee Revenues	64,043	0.1%	18,305	28.6%	-
Enhanced Collections ⁴	3,732,177	4.5%	149,037	4.0%	-
Prior Year Revenue	10,000	0.0%	10,000	100.0%	(156,149)
County Program - Restricted	198,919	0.2%	3,050	1.5%	-
Reimbursement Other	682,687	0.8%	89,747	13.1%	-
Other Miscellaneous ⁴	8,471,819	10.1%	726,845	8.6%	-
Subtotal	14,587,934		1,059,981		(156,149)
Total Revenues	\$ 83,596,716	100.0%	\$ 64,716,802	77.4%	\$ -

¹ Differences due to rounding.

² Revenues over/(under) stated; see Finding 1.

³ Tested account internal controls.

⁴ Material account.

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

Expenditure Accounts ¹	Total Expenditures	Percentage	Amounts Tested	Percentage	Error Amounts ²
Payroll³					
Salaries – Permanent ⁴	\$ 31,985,054	38.2%	\$ 110,052	0.3%	\$ -
Temp Help	214,495	0.3%	-	0.0%	-
Overtime	233,331	0.3%	-	0.0%	-
Staff Benefits ⁴	25,421,740	30.4%	65,894	0.3%	-
Subtotal	57,854,620		175,946		-
Operating Expenses and Equipment³					
General Expense ³	3,992,770	4.8%	1,338,981	33.5%	298,945
Printing	138,938	0.2%	5,158	3.7%	-
Telecommunications	603,149	0.7%	703	0.1%	-
Postage	540,847	0.6%	1,175	0.2%	-
Insurance	1,062,815	1.3%	801	0.1%	-
In-State Travel	96,123	0.1%	435	0.5%	-
Out of State Travel	5,102	0.0%	1,370	26.8%	-
Training	63,167	0.1%	575	0.9%	-
Security Services	-	0.0%	-	0.0%	-
Facility Operations	2,979,773	3.6%	2,978	0.1%	-
Utilities	69,948	0.1%	3,441	4.9%	-
Contracted Services ⁴	5,689,158	6.8%	614,048	10.8%	-
Consulting and Professional Services	743,687	0.9%	2,692	0.4%	-
Information Technology	1,623,692	1.9%	31,861	2.0%	-
Major Equipment	255,868	0.3%	596	0.2%	(298,945)
Other Items of Expense	48,930	0.1%	84	0.2%	-
Subtotal	17,913,967		2,004,897		-
Special Items of Expense³					
Grand Jury	643	0.0%	345	53.6%	-
Jury Costs	619,672	0.7%	21,659	3.5%	-
Judgements, Settlements, Claims ⁴	7,324,437	8.7%	3,976,565	54.3%	-
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	-	0.0%	-	0.0%	-
Subtotal	7,944,752		3,998,568		-
Total Expenditures	\$ 83,713,339	100.0%	\$ 6,179,411	7.4%	\$ -

¹ Differences due to rounding.

² Revenues over/(under) stated; see Finding 2.

³ Tested account internal controls.

⁴ Material account.

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

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Proprietary Fund	Total
Beginning Balance ¹	\$ 1,465,017	\$ 3,153,468	\$ -	\$ 500,000	\$ 5,118,484
Revenues	68,232,421	4,771,816	1,571,912	9,020,566	83,596,716
Expenditures	(68,417,830)	(4,495,927)	(1,915,588)	(8,883,993)	(83,713,339)
Transfers In	-	78,706	343,676	-	422,382
Transfers Out	(422,382)	-	-	-	(422,382)
Ending Balance	<u>\$ 857,226</u>	<u>\$ 3,508,063</u>	<u>\$ 0</u>	<u>\$ 636,573</u>	<u>\$ 5,001,861</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>

¹ Differences due to rounding.

Findings and Recommendations

FINDING 1— Internal control deficiency related to the recording of account adjustments

The Court did not utilize adjustment accounts to reclassify and properly record certain prior-year revenues that were received in the current-year. Both revenue exceptions identified below reflect estimated revenues provided to the Court by Trial Court Trust Fund, Distribution No. 14 of the previous year.

Adjustments were not recorded in the following instances:

- The Court did not accrue two year-end Court Interpreter (General Ledger [GL] Account No. 834010) revenue transactions in the amount of \$131,529 and \$13,776 in the prior year (FY 2017-18). When the Court received the cash in FY 2018-19, it was recorded as a current-year revenue in the Court Interpreter account, instead of the Prior-Year Revenue Adjustment account (GL Account No. 899910).
- The Court did not accrue a transaction in the prior year (FY 2017-18) for the Assembly Bill 1058 Grants account (GL Account No. 838010) totaling \$10,844. When the Court received the cash in FY 2018-19, it was recorded as a current year revenue in the AB 1058 Grants account, instead of the Prior-Year Revenue Adjustment account (GL Account No. 899910).

Differences can occur because Distribution No. 14 revenues may not be known at year-end and should be recorded as an adjustment in GL Account No. 899910 – Prior-Year Revenue Adjustment when received. We also noted other differences between amounts accrued in the prior year and amounts received. These differences were trivial and are not described in this report; however, differences between accrual and actual revenues should be also accounted for in the adjustment account. The Court indicated that it was not aware of using the Prior-Year Revenue Adjustment account .

The Prior-Year Adjustment account effectively serves to true-up accounting information for financial and budgetary reporting and isolates prior-year transactions to prevent them from being comingled with current-year operating accounts. 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. 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 GL Account No. 999910 – Prior-Year Expense Adjustment as the account used for recording “expenses related to prior-year activity.”

The Trail Court Chart of Accounts describes GL 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. The Court should record prior year transactions (revenues or expenditures) that are not accrued to the adjustment accounts. Differences that occur in the current-year for amounts actually received (for accrued revenue receivables) or paid (for accrued expenditure payables) from amounts accrued in the prior-year should also be entered in the adjustment accounts.

Court's Response

The Court concurs with the audit finding and the narrative that outlines that the Judicial Council of California did not provide guidance on the use of prior year accounts until June 2020. The Court has provided training to the accounting team and has ensured compliance with the guidance since it was released.

FINDING 2— Misclassified accounting entry

During our review of the Court's expenditures, we noted the following two internal control deficiencies:

- **Significant Misclassified Accounting Entry**

The Court incorrectly classified and entered invoice payments for the progress billings on a project to GL Account No. 922699, Minor Equipment-under \$5,000. The total project cost, billed over four installments, was \$298,945. We initially selected one invoice to review in our sample, but upon discovering the error selected the other three invoices in connection with the project. The Court indicated that the transaction should have been recorded in GL Account No. 945207, Security Surveillance, because one of the items purchased was greater than \$5,000. The cost detail provided by the contractor shows that project costs consisted of materials, labor, and project management/engineering fees. Although the materials list included one item with a value of \$11,845, there were approximately 150 items listed. The total value for all materials was \$126,375, out of the \$298,945 project cost. The project should have been considered as a single acquisition to account for its costs.

Each of the two accounts mentioned in this report are classified into separate financial reporting and budget categories of the financial statements, where GL Account No. 922699, Minor Equipment-under \$5,000, is classified in the "General Expense" category; and GL Account No. 945207, is classified in the "Major Equipment" category.

Accounts are assigned (coded) when a purchase requisition, quote, or purchase order is prepared, reviewed, and approved. Properly coded purchase documents facilitate correct accounting and financial reporting. The Court indicated the misclassification was an oversight. While the misclassification did affect the presentation of account totals, it did not misstate the Court's overall reported total expenditures and fund balances.

- **Exceeded Payment Approval Limit**

In seven out of 47 invoices reviewed, the CEO approved payments in excess of the CEO's authorized \$50,000 limit. According to the Court's Authorization Matrix, the CEO is limited to approving invoice payments up to \$50,000; those above \$50,000 should be approved by the presiding judge. The invoices were each valued at more than \$100,000. Approval for higher cost purchases are similarly limited; we reviewed the underlying purchase records and found appropriate

approvals from the presiding judge to make the requested purchases. We did not find any misuse of funds.

This payment-approval issue was previously disclosed in the JCC Audit Services Report of the Superior Court of Kern County, August 2016. We noted that in response to the reported finding, the Court revised its authorizations and exceptions to address the purchase and payment approval processes, but retained the \$50,000 limit on CEO invoice approvals.

Regarding the classification of accounts, the *Trial Court Financial Policies and Procedure Manual*, Eight Edition, Policy No. Fin 8.01, section 6.3.5 states, in part:

1. It is important that all expenditures are recorded in the appropriate accounts. To ensure that transactions are recorded correctly, account codes shall be entered on the purchase requisitions that initiate transactions and be included in the resulting procurement documents. Invoice transactions that are not supported by procurement documents (travel expense claims, check requests, etc.) must have the account code noted on the document requesting payment.
2. If there is any question regarding the assignment of an account code, the accounts payable department or accounts payable provider will contact the person who initiated the purchase requisition to confirm that the correct account is being charged.

Regarding the authority to process and approve payments, the *Trial Court Financial Policies and Procedure Manual*, Eight Edition, Policy No. Fin 8.01, section 6.2.3, states, in part:

1. The trial court shall establish and maintain an authorization matrix that lists employees who are permitted to commit court resources and approve invoices for payment.
2. The authorization matrix shall list the dollar limits and scope of authority of each authorized employee. For example, only certain court officials will be allowed to approve transactions such as the acquisition of fixed assets, hiring of consultants, etc. The authorization matrix should indicate such conditions.

Recommendation

We recommend the court continue enforcing its expenditure control policies by:

- Providing training to staff charged with buying or preparing requisitions to ensure that appropriate account codes are assigned, and encouraging all persons involved with approval or processing to review coding prior to processing invoices for payments; and
- Ensuring that designated court officials act within the scope of their authority when approving invoices for payment and that the Court review its business needs and consider making appropriate revisions to its authority levels in consultation with the JCC. If the dollar amount or nature of a purchase exceeds an individual's authority, the next

level of authority should be consulted and appropriate approval secured before releasing the invoice for payment.

Court's Response

The Court concurs with the audit finding. The Court has adjusted internal controls to aid in mitigating future occurrences.

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



COLETTE M. HUMPHREY
PRESIDING JUDGE

JUDITH K. DULCICH
ASST. PRESIDING JUDGE

TAMARAH HARBER-PICKENS
COURT EXECUTIVE OFFICER &
CLERK OF THE COURT

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Metropolitan Division -
Juvenile Justice Center
2100 College Avenue
Bakersfield, CA 93305
(661) 868-5393

Metropolitan Division - Traffic
Department
3131 Arrow Street
Bakersfield, CA 93308
(661) 335-7100

Delano/McFarland Branch
1122 Jefferson Street
Delano, CA 93215
(661) 720-5800

Shafter Branch
325 Central Valley Highway
Shafter, CA 93263
(661) 746-7500

Arvin/Lamont Branch
12022 Main Street
Lamont, CA 93241
(661) 868-5800

Taft/Maricopa Branch
311 North Lincoln Street
Taft, CA 93268
(661) 763-8531

Mojave Branch
1773 Highway 58
Mojave, CA 93501
(661) 824-7100

Ridgecrest Branch
132 East Coso Avenue
Ridgecrest, CA 93555
(760) 384-5900

SUPERIOR COURT OF CALIFORNIA COUNTY OF KERN

March 10, 2021

Mr. Joel James, Chief
Financial Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, California 94250

Dear Mr. James,

This correspondence serves as the response to the two audit findings noted in the Audit Report on the Validity of Recorded Revenues, Expenditures, and Fund Balances for Superior Court of Kern County during the period of July 1, 2018, through June 30, 2019.

The Kern County Superior Court would like to take the opportunity to thank your staff for their professionalism and willingness to work with the Court during the course of this audit, which was profoundly affected by the pandemic.

Please see the Court's responses herewith for each of the findings identified in the audit report.

Should you have further questions or require additional information, please contact me at (661) 868-2610.

Sincerely,

Travis Andreas
Deputy Court Executive Officer – Finance

CC: Hon. Colette Humphrey, Presiding Judge
Tamarah Harber-Pickens, CEO

Finding 1 – *The Court did not utilize adjustment accounts to reclassify and properly record certain prior-year revenues that were received in the current-year. Both revenue exceptions identified below reflect estimated revenues provided to the Court by Trial Court Trust Fund, Distribution No. 14 of the previous year.*

Court Response

The Court concurs with the audit finding and the narrative that outlines that the Judicial Council of California did not provide guidance on the use of prior year accounts until June 2020. The Court has provided training to the accounting team and has ensured compliance with the guidance since it was released.

Finding 2 – *Internal control deficiencies.*

- *Significant Misclassified Accounting Entry*
- *Exceeded Payment Approval Limit*

Court Response

The Court concurs with the audit finding. The Court has adjusted internal controls to aid in mitigating future occurrences.

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

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