

SUPERIOR COURTS OF CALIFORNIA

Report to the California State Legislature

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

March 2022



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California State Controller

March 30, 2022

Members of the California State Legislature
State Capitol Building
Sacramento, CA 95814

Members of the California State Legislature:

I am pleased to present you with the State Controller's Office annual report for the Superior Court Audit Program of California, Validity of Recoded Revenues, Expenditures, and Fund Balances. This report has been prepared pursuant to Government Code section 77206(h)(3).

During this reporting period, the State Controller's Office completed four audits of Superior Courts with audit periods between July 1, 2019, and June 30, 2020.

The purpose of these audits is to determine whether the Superior Courts 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 their administration, jurisdiction, and control.

Questions regarding this report should be directed to my Chief Operating Officer, Kathleen Webb, at (916) 552-8080.

Sincerely,

Original signed by

BETTY T. YEE

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Overview

Summary

This report summarizes the results of the State Controller's Office (SCO) audit of the Superior Courts of California (courts) during the period of July 1, 2019, through June 30, 2020. This report has been prepared pursuant to Government Code (GC) section 77206(h)(3).

SCO completed audits of the following courts:

- Colusa County Superior Court (fiscal year [FY] 2019-20);
- Tulare County Superior Court (FY 2019-20);
- Ventura County Superior Court (FY 2019-20); and
- Yuba County Superior Court (FY 2019-20).

The purpose of these audits is to determine whether the courts 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 their administration, jurisdiction, and control.

We reviewed \$102,267,948 in recorded revenues, \$103,745,753 in recorded expenditures, and \$4,653,234 in recorded fund balances. We found \$281,593 in cumulative financial reporting errors and several non-monetary internal control deficiencies.

The reported audit findings are classified as follows:

- Accounting misstatements and errors
- Internal control deficiencies
 - Commissioner pay rate not substantiated
 - Inappropriate timesheet approval
 - Missing personnel records

Except for the issues described in the results, we found that the courts substantially complied with the governing statutes, rules, and regulations relating to revenues, expenditures, and fund balances of material and significant funds under the administration, jurisdiction, and control of each court audited.

Background

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

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

With respect to 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 courts with the authority and responsibility for managing their own operations.

All 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 courts for their positions.

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

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

In FY 2019-20, the audited courts generated approximately 71% of total revenues from the State's TCTF.

The audited courts employed approximately 765 staff members to fulfill the operational and administrative activities necessary to serve each county's population, totaling approximately 1,415,030 in aggregate for all counties. The courts that we audited incurred a total of \$103,745,753 million in expenditures for the period of July 1, 2019, through June 30, 2020. Of this amount, approximately 74% represents employee salaries and benefits.

Funds under each court's control include a General Fund, a Special Revenue Non-Grant Fund, a Special Revenue Grant Fund, a Proprietary Fund, and a Fiduciary Fund. All funds that had revenue and expenditure accounts with reported balances at year-end in excess of 4% of total revenues and expenditures were considered material and significant.

Audit Authority

We performed the audits by request of the JCC, pursuant to GC section 77206(j), which states, in part:

The Administrative Office of the Courts [the JCC] shall contract with the Controller to perform the audits described in subdivisions (h) and (i)....

We conducted our audits under the authority of GC section 77206(h)(2), which states:

Based on the results of the pilot program audits described in paragraph (1), the entity contracted with pursuant to subdivision (j) shall, on or before December 15, 2013, commence an audit of the trial courts, provided that every trial court is audited in the manner prescribed by this section at least once every four years. The audits shall be performed in accordance with generally accepted government auditing standards and shall determine the trial court’s compliance with governing statutes, rules, and regulations relating to the revenues, expenditures, and fund balances of all material and significant funds, including state General Fund funds, funds generated from fees or fines, federal funds, grants, or any other funds within the trial court’s administration or control. The audits required by this paragraph shall be in addition to any audit regularly conducted pursuant to any other provision of law.

In addition, GC section 77206(h)(3) states, in part:

Notwithstanding Section 10231.5, the auditing entity shall compile the trial court audit findings and report the results of these audits to the Legislature, the Judicial Council, and the Department of Finance no later than April 1 of each year.

In addition, GC section 12410 states, in part:

The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.

Objective, Scope, and Methodology

The objective of our audits was to determine whether the courts 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 their administration, jurisdiction, and control. Specifically, we conducted these audits to determine whether:

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

The audit period was July 1, 2019, through June 30, 2020.

To accomplish our objective, we performed the following procedures.

General Procedures

- We 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 FIN Manual (10th edition, June 2019), and other relevant internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Controls

- We reviewed the courts' current policies and procedures, organization, and website, and interviewed court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- We interviewed court personnel and prepared internal control questionnaires to identify internal accounting controls.
- We assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties were properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions.
- We reviewed the courts' documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the courts' financial and human resources systems; (2) reviewing court policies; (3) agreeing accounting data files with published financial reports; (4) tracing data records to source documents to verify completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key court information systems. We determined that the data was sufficiently reliable for the purposes of responding to our objective.
- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected revenue and 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 effect of the identified errors. Errors were not projected to the tested population.

We designed our testing to verify the courts' adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our testing methodology and results are summarized in the Audit Results section.

We limited our review of the courts' internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. None of the audits included objectives related to economy and efficiency measures, and we did not audit the courts' financial statements.

We conducted the performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Summary of Audit Results

Introduction

We tested revenues, expenditures, and fund balances for each of the four trial courts. Below is a collective summary of all four trial court audits.

Revenue Testing

We tested \$89,982,327 of \$102,267,948, or approximately 88% of total revenues, and found unadjusted prior-year revenues that were misclassified in the accounts reported in the courts' financial statements. We also found some inaccuracies with revenues that were recorded at year-end using estimates, and not adjusted for the differences in amounts actually received. These types of accounting differences will generally self-correct after two or more years.

Expenditure Testing

We tested \$4,902,394 of \$103,745,753, or approximately 5% of total expenditures. We found unadjusted prior-year expenditures that had been misclassified in accounts reported in the courts' financial statements. At one court, we identified an incorrectly prepared and paid claim for interpreter services. We also found instances in which courts could not provide supporting records for items that we requested to review.

Fund Balance Testing

We recalculated sampled funds to ensure that fund balances as of June 30, 2020, were accurate and in compliance with applicable criteria. We determined that fund balances for the tested operating General Funds, Grant Special Revenue Funds, and Non-Grant Special Revenue Funds were properly reported by all but two of the courts. Our testing revealed that, as a result of a \$2,484 accounting error, one court overstated the revenue and fund balance totals reported in its General Fund. Our testing also revealed that another court understated its General Fund balance because it did not accrue a \$66,619 revenue that was earned prior to its fiscal year-end of June 30, 2020.

Audit Results and Findings for Individual Courts

Introduction

The findings and recommendations included below are presented as they were stated in the Trial Court Audit reports issued by SCO from April 1, 2021, through March 31, 2022. Unless otherwise indicated, the courts agreed with the findings and recommendations.

These findings and recommendations are solely for the information and use of the Legislature, JCC, the respective courts, the California Department of Finance, and SCO; they are not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report or the respective audit reports, which are a matter of public record.

Colusa County Superior Court (FY 2019-20)

Audit Results

Our audit found that revenues, expenditures, and fund balances reported by the Court substantially 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 one incorrectly paid interpreter claim and certain revenues that were not reported correctly for the fiscal year in which they were earned. Additionally, we noted internal control weaknesses pertaining to the preparation and/or maintenance of supporting documents and to timesheet approvals.

Amount of error: \$2,484

The Court agreed with the findings.

FINDING 1— Revenue accounting errors

During our review of revenue account transactions, we identified three accounting errors. Although the errors are disclosed in this report, they had only a minor effect on overall financial reporting.

In two instances, prior-year reimbursements for the TCTF were misclassified as current-year operating reimbursements:

- GL Account Number 832011 (TCTF – Jury) – The Court received and recorded a prior-year (FY 2018-19) reimbursement for \$495 in its current-year operating reimbursement account. The claim for reimbursement was not accrued at the end of the prior year.
- GL Account Number 832012 (TCTF – Court Appointed Counsel) – The Court received and recorded a prior-year (FY 2018-19) reimbursement for \$3,084 in its current-year reimbursement account. The claim for reimbursement was not accrued at the end of the prior year.

In each of these instances, the correct procedure is to record these reimbursements in GL Account Number 899910 (Prior Year Revenue Adjustment). For financial accounting and reporting, reimbursements are

included with revenue. This account is used to reclassify revenue that was earned and not accrued in the prior year, but was received in the current year.

In the third instance, a duplicate accrual was posted to an incorrect account. The Court appropriately recorded an accrual of \$2,643 at year-end in the correct account, GL Account Number 832010 (TCTF – MOU [Memorandum of Understanding] Reimbursements). However, a duplicate entry for the accrual was also entered in GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement). As a result, the State Financing Sources total reported in the Court’s FY 2019-20 financial statements was overstated by \$2,643.

The JCC’s uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court General Ledger. Revenues are reclassified by using GL Account Number 899910 (Prior Year Revenue Adjustment) to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but was received in the current year. Expenditures are reclassified in a similar way by using GL Account Number (999910 – Prior Year Expense Adjustment).

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled with current-year transactions and reported in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The JCC’s Administrative Division staff introduced new guidance for using this account in its FY 2019-20 *Year-End Close Training Manual–General Ledger*. Court staff stated that the Court was not aware of this guidance to use the Prior-Year Revenue Adjustment account, and also noted that such guidance had not been provided in prior years.

Page 64 of the *Year-End Close Training Manual–General Ledger* states, in part:

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.

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.

Policy Number FIN 5.02, section 3.0, “Policy Statement,” of the FIN Manual 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.

**FINDING 2—
Internal control
deficiency –
Commissioner pay
rate not
substantiated**

For our test of non-payroll expenditures, we selected a sample of 37 disbursement transactions to review, which included a transaction for Child Support Commissioner Services. We found that the Court was unable to substantiate the calculated rate of pay for invoiced Child Support Commissioner Services, which are provided pursuant to a four-court Intra-Branch Agreement (IBA).

The IBA specifies a compensation for 85% of a judge’s salary, in addition to taxes, benefits, and a travel allowance. Invoices are supported with activity logs and timesheets showing days and hours, by pay period. Neither the invoice, the supporting documentation, nor the IBA stipulate an hourly pay rate. We could not determine whether the rate charged was calculated correctly or whether the amount was excessive. We estimated a rate of \$274 per hour, for 37.5 hours, charged to the court. Court staff members indicated that invoiced amounts are not verified, and that the Court assumes that billing calculations produced by the coordinating lead court are correct.

The current guidance for contracts between Judicial Branch Entities (JBEs) is to establish clear pricing terms and unit-based labor rates.

Chapter 8, section 8.3, sub-section A2, “Pricing and payment,” of the *Judicial Branch Contracting Manual* (revised August 1, 2018) states, in part:

The price the JBE will pay for goods and services under a contract must be clearly stated. The contract should clearly specify the basis for compensation and the terms of payment, such as: lump sum (one-time payment), firm fixed price, unit price, labor rate, or other specific basis....

- o. If a JBE is contracting for labor, a schedule listing the hourly, daily, weekly, or monthly cost for each person or job classification must be incorporated into the contract.

**FINDING 3—Internal
control deficiency –
Inappropriate
timesheet approval**

In our test of the Court’s payroll accounting, we selected a sample of five out of 23 employee timesheets to verify approval and time keeping. We found that the Court Executive Officer’s electronic timesheet was approved by the subordinate Court Financial Officer. However, the Court Executive Officer’s timesheets should be approved by the Presiding Judge.

Policy Number FIN 1.03, section 6.3.3, sub-section 5, “Proper Authorization and Documentation,” of the FIN Manual states:

- a. The court must establish a system of authorization to provide effective management control over its assets, liabilities, revenues, and expenditures. The specific levels and scope of authority of executives, managers, supervisors, and staff, with dollar limits where appropriate, must be established and documented. That documentation will be provided to applicable court, county, and accounting service provider personnel, and to the Judicial Council of California, for reference.
- b. When processing transactions, evidence of authorization must be maintained in the accounting files to document that:
 - i. Proper authorizations are obtained;
 - ii. Authorizations are issued by court employees acting within the scope of their authority; and
 - iii. Transactions conform to the terms of the authorizations.

FINDING 4—Internal control deficiency – Missing personnel record

During our review of payroll expenditures and related internal controls, we verified the calculations, payments, and accounting for a sample of five out of 23 employee benefit transactions. For one employee in our sample, the Court was unable to substantiate a waiver of health benefits.

Each employee and Court Health Benefit Officer prepares and signs a Health Benefits Plan Enrollment for Active Employees (HBD-12) form. Eligible public employees use this form to enroll in, modify, or decline coverage by an employer’s health benefit plan.

Although the Court provided HBD-12 forms for other sampled employees, it did not have an HBD 12 form for this sampled employee in its personnel files. Therefore, we were unable to verify the waiver of health benefits.

GC section 71660 requires that trial courts maintain personnel files. Paragraph (b) of GC section 71660 states:

Each trial court shall keep a copy of each employee’s official personnel files at the place where the employee reports to work, or shall make the official personnel files available where the employee reports to work within a reasonable period of time after a request for the official personnel files by the employee.

FINDING 5— Claimant payment error

During our review of disbursements for court interpreter services, we selected a sample of 37 transactions and noted a discrepancy between the claimed amount and the supporting Daily Activity Log for one employee. The Daily Activity Log provides case references and is marked for a full day of service. However, the claim and corresponding disbursement was for only a half-day (per diem) of \$226. On inquiry, the Court acknowledged having incorrectly paid only a half-day and that it should have paid a full day. The Short Form Agreement for Interpreting Services (Agreement) between the interpreter and the Court indicates “Excessive” half-day and full-day pay rates of \$226 and \$418, respectively.

In response to this matter, the Court processed a claim to pay the interpreter the difference due of \$192. A copy of the claim, dated June 30, 2021, was provided for our audit records.

We also noted a discrepancy in mileage paid on the claim. The Agreement was pre-typed with a mileage claim of 298 miles. With the address indicated in the claim, using Map Quest we calculated a 240 mile round-trip distance, which is 58 miles fewer than the claimed mileage. We were informed that once mileage is established in an Agreement, it continues to be used in subsequent claims.

Policy Number FIN 8.01, section 6.3.3, "Review for Accuracy of Invoice," Item 1 of the FIN Manual states, "Calculations and price extensions shown on the invoices shall be audited to ensure their accuracy."

Policy Number FIN 8.02, section 6.8, "Reconciliation of Claims," of the FIN Manual states:

After the accounts payable department has received and recorded a claim, it must be reconciled to the court authorization for the services provided and the service provider's invoice. The claim should be reviewed against the court authorization to verify the appointment, rates, and any hour or dollar limits that may apply. The invoice should be reviewed against the court authorization for the rates and hours charged, and other costs incurred. The correctness of unit price extensions and totals should also be reviewed. Previous claims for the same matter should also be reviewed to assure that limits are not exceeded.

Tulare County Superior Court (FY 2019-20)

Audit Results

The Court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures and fund balances.

Amount of error: \$0 (No findings)

The Court agreed with the findings.

Ventura County Superior Court (FY 2019-20)

Audit Results

Our audit found that revenues, expenditures, and fund balances reported by the Court substantially 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 also identified certain revenues and expenditures that were not reported correctly for the fiscal year in which they were earned.

Amount of error: \$66,619

The Court agreed with the finding.

**FINDING—
Revenue and
expenditure
adjustment and
accrual accounting
errors**

Certain operating revenue and expenditure accounts were incorrectly presented and stated in the Court’s financial statements. In three revenue accounts, the Court did not reclassify revenues attributable to the prior year (FY 2018-19) by making adjusting entries to current year (FY 2019-20) operating accounts and GL Account Number 899910 (Prior Year Revenue Adjustment). In one of the three operating revenue accounts, the Court also did not claim and accrue reimbursements for eligible project costs that were incurred in FY 2019-20. Reimbursements are recognized as revenue for financial-statement presentation.

Additionally, while reviewing the reimbursed expenditures in connection with testing GL Account Number 832010 (TCTF – MOU Reimbursement), we noted that the Court did not adjust and reclassify payments for prior-year expenditures.

The unadjusted differences are as follows:

- GL Account Number 834010 (TCTF – Court Interpreter)

The Court accrued revenue of \$186,900 in FY 2018-19 that was not received in FY 2019-20. Accruals are automatically reversed by the Court’s accounting system in the subsequent year that follows the accrual. In the absence of receipts or other accruals, a reversal creates a deficit in the account’s balance of the next year. Court staff members informed us that this revenue was received in FY 2020-21. The deficit can be reclassified by an adjusting entry to GL Account Number 899910 (Prior Year Revenue Adjustment). Alternatively, if the Court is able to anticipate collection, it can offset the deficit with another accrual. Neither entry was recorded; as a result, the account was understated by \$186,900.

- GL Account Number 832010 (TCTF – MOU Reimbursement)

The Court accrued revenue of \$89,445 in FY 2018-19 for the Self Help Case Management System (CMS) program (project number M-5602-118-01), and received \$121,104 in FY 2019-20. The excess of \$31,659 should have been reclassified by an adjustment to the operating account, and recorded in GL Account Number 899910 (Prior Year Revenue Adjustment). As a result, the TCTF – MOU Reimbursement account was overstated by \$31,659.

In addition, some project expenses that were incurred in FY 2019-20 were not claimed until the following fiscal year. These unclaimed costs were not accrued for reimbursement in FY 2019-20. The Court expended \$606,673 in FY 2019-20 for the Self Help CMS program (project numbers M-5602-119-01 and M-5602-119-02), but claimed reimbursement for only \$540,054. The remaining expenditures of \$66,619 were neither claimed nor accrued at year-end and, as a result, the reimbursement account balance was equally understated by \$66,619.

We reviewed the grant to verify its project requirements and to determine whether the Court fully used the grant funds that were available for authorized projects under the grant terms. The grant stipulates that for reimbursement, funds must be expended or encumbered by June 30, 2020. The Court provided correspondence

from the grantor (JCC) showing that funds from FY 2019-20 were available and the Court could claim indirect costs. By applying certain FY 2019-20 indirect costs, the Court satisfied the grant terms requiring expenditure of the full grant amount. The court provided a copy of the supporting journal entry that reclassifies eligible indirect costs to an authorized and reimbursable grant project in FY 2020-21. However, the reimbursement should have been entered as an adjustment to prior-year revenue when it was received.

These errors, when combined, resulted in a net understatement of \$34,960 to GL Account Number 832010 (TCTF – MOU Reimbursement).

- GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement)

The Court received revenue of \$86,170 for FY 2018-19; this amount was neither accrued in FY 2018-19 nor adjusted in FY 2019-20. The excess of \$86,170 should have been reclassified by an adjustment to the operating account, and entered in GL Account Number 899910 (Prior Year Revenue Adjustment). As a result, the account was overstated by \$86,170.

When a revenue is accrued to an account at the end of a fiscal year and is not fully collected in the subsequent fiscal year, the revenue account of the subsequent year incurs a deficit. The revenue account of the subsequent year should be adjusted to correctly report revenue earned in that fiscal year.

- Unadjusted operating expenditures, various accounts

The Court paid for and recorded expenditures of \$61,317 in FY 2018-19 for its Self Help CMS program (project number M-5602-118-01), as described in our discussion of the unadjusted difference in GL Account Number 832010 (TCTF – MOU Reimbursement). The expenditures were not accrued in FY 2018-19, and should have been reclassified to GL Account Number 999910 (Prior Year Expense Adjustment).

As a result, various expenditure operating accounts were overstated by a total of \$61,317, as shown in the following table:

<u>Description</u>	<u>Account Number</u>	<u>Expended</u>
Office Furniture – Minor	922603	\$ (1,483)
Minor Equipment – Under \$5,000	922699	57,797
General Expense – Service	923999	475
Travel In State	929299	1,344
Training	933101	(450)
Other Facility Costs – Goods	935799	517
IT Maintenance	943201	1,385
IT Commercial Contract	943301	1,732
Total		<u>\$ 61,317</u>

The JCC’s uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court General Ledger. Revenues are reclassified by using GL Account Number 899910 (Prior Year Revenue Adjustment) to

record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but was received in the current year. Expenditures are reclassified in a similar way by using GL Account Number 999910 (Prior Year Expense Adjustment).

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled with current-year transactions and reported in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The Court indicated that adjustments were not recorded due to an oversight on the part of staff. The JCC's Administrative Division staff introduced new guidance for using this account in its FY 2019-20 *Year-End Close Training Manual–General Ledger*.

Page 64 of the *Year-End Close Training Manual–General Ledger* states, in part:

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.

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.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the FIN Manual 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.

Yuba County Superior Court (FY 2019-20)

Audit Results

Our audit found that revenues, expenditures, and fund balances reported by the Court substantially 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 certain revenues that were not reported correctly for the fiscal year in which they were earned.

Amount of error: \$0

The Court agreed with the findings.

FINDING— Revenue accounting error

The Court did not correctly report revenue earned for its FY 2019-20 Assembly Bill 1058 grant program. We reviewed the Court's revenue accounts for FY 2019-20 and noted deposits of only \$15,768 for prior-year AB 1058 grant program revenues, although the Court accrued \$24,870 at FY 2018-19 year-end. The difference in the amounts received and accrued reflects a \$9,102 shortfall from the Court's expected earned program revenue.

Because of year-end account closing and opening processes, when a revenue is accrued to an account at the end of a fiscal year and is not fully collected in the subsequent fiscal year, the revenue account of the subsequent year incurs a deficit. The revenue account should be adjusted to correctly report revenue earned in that fiscal year.

The JCC's uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court General Ledger. Revenues are reclassified by using GL Account Number 899910 (Prior Year Revenue Adjustment) to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but was received in the current year. Expenditures are reclassified in a similar way by using GL Account Number (999910 – Prior Year Expense Adjustment).

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled with current-year transactions and reported in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The JCC's Administrative Division staff introduced new guidance for using this account in its FY 2019-20 *Year-End Close Training Manual—General Ledger*. Court staff stated that they were not aware of this guidance to use the Prior-Year Revenue Adjustment account, and also noted that such guidance had not been provided in prior years.

Page 64 of the *Year-End Close Training Manual—General Ledger* states, in part:

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.

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.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the FIN Manual 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.

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

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