# SUPERIOR COURTS OF CALIFORNIA

Report to the California State Legislature

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

*July 1, 2019, through June 30, 2021*


MALIA M. COHEN
California State Controller


March 2023

MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 30, 2023

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

Members of the California State Legislature:

I am pleased to present the State Controller's Office annual report for the Superior Courts of California, Validity of Recorded Revenues, Expenditures, and Fund Balances. This report was prepared pursuant to Government Code section 77206(h)(3), and compiles the findings from our recent audits of California Superior Courts.

During this reporting period, the State Controller's Office completed six audits of Superior Courts with audit periods between July 1, 2019, and June 30, 2021.

The purpose of these audits was 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.

If you have any questions regarding this report, please contact my Chief of Staff, Regina Evans, by email at revans@sco.ca.gov or by telephone at 916-445-2636. Thank you.

Sincerely,

*Original signed by*

Malia M. Cohen

# Contents

# Report Summary

## Overview

This report summarizes the results of the State Controller's Office (SCO) audit of the Superior Courts of California (Courts) during fiscal year (FY) 2019-20 and FY 2020-21. This report was prepared pursuant to Government Code (GC) section 77206(h)(3).

The SCO audited the following six Courts:

- Madera County Superior Court (FY 2019-20)
- Calaveras County Superior Court (FY 2020-21)
- Fresno County Superior Court (FY 2020-21)
- Humboldt County Superior Court (FY 2020-21)
- San Bernardino County Superior Court (FY 2020-21)
- San Luis Obispo County Superior Court (FY 2020-21)

The purpose of these 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.

We reviewed $251,499,742 in recorded revenues, $259,770,637 in recorded expenditures, and $9,448,293 in recorded fund balances. We found $193,088 in cumulative financial reporting errors and several non-monetary internal control deficiencies.

The reported audit findings are classified as follows:

- Accounting misstatements and errors (monetary)
  - Unadjusted revenues
  - Unadjusted expenditures
  - Account entry errors
  - Financial statement reporting errors
- Internal control deficiencies (non-monetary)
  - Missing or unsigned contracts or agreements
  - Missing or unsigned personnel records
  - Lack of local contracting policies and procedures
  - Use and approval of an incorrect overtime pay rate
  - Improper timesheet approval
  - Accounting system user access list not updated

Except for the issues described in the Audit Results and Findings for Individual Courts, we found that the Courts were generally in compliance 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

Superior Courts (trial 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, many 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.

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 trial court operations. The JCC allocates money in the TCTF to trial 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 and FY 2020-21, approximately 77% of the audited Courts' allocations were from the TCTF. Approximately 79% of the total amount expended by these Courts represents employee salaries and benefits.

The audited Courts employed approximately 1,951 staff members to fulfill the operational and administrative activities necessary to serve the respective county of each Court. The aggregate population for the counties served by the audited Courts was approximately 3,583,457 persons.

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 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.

## Audit Authority

We conducted our audits at the request of the JCC; and in accordance with GC section 77206(h), which requires the SCO to perform an audit of every trial court at least once every four years, and to report the results of these audits to the Legislature, the JCC, and the Department of Finance no later than April 1 of each year. In addition, GC section 12410 provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and 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 periods were July 1, 2019, through June 30, 2020; and July 1, 2020 through June 30, 2021.

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, Government Code, the California Rules of Court, the FIN Manual (10th edition, June 2019 and 11th edition, June 2020), and the Courts' 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 to 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 found were not projected to the intended (total) 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 this performance audit 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

## Overview

We tested revenues, expenditures, and fund balances for each of the six trial courts. This page summarizes the results of all six audits.

## Revenue Testing

We tested $227,054,610 of $247,876,416, or approximately 92% of total revenues. For all Courts audited, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. For four of six Courts audited, the unadjusted revenues did not affect the total revenues reported by the Courts. For the other two Courts, the unadjusted revenues reflected posting and accrual-related errors that resulted in revenues being understated by $101,805 at one Court and overstated by $20,194 at another Court.

## Expenditure Testing

We tested $4,813,150 of $256,187,504, or approximately 2% of total expenditures. At one Court, we found expenditures that were not reported correctly in the Court's financial statements for the fiscal year in which they were incurred, and one instance of payroll charges posted to an incorrect account. At another two Courts, we found errors in the fourth-quarter Statement of Revenues, Expenditures, and Changes in Fund Balances (Q4 Statement). We also found internal control deficiencies relating to missing or unsigned documentation, a lack of local contracting policies, use and approval of an incorrect overtime pay rate, improper timesheet approval, and accounting system user access.

## Fund Balance Testing

We recalculated sampled funds to ensure that fund balances as of June 30, 2020, and June 30, 2021, 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 two of the six Courts reviewed, and that errors were present in the fund balances reported by the other four Courts.

Our testing revealed that one Court's General Fund balance was understated by $202,999 as a result of unadjusted prior-year revenues and expenditures; another Court's General Fund balance was overstated by $20,194 as a result of account ledger posting errors; the third Court's Non-grant Special Revenue Fund was understated by $10,283 as a result of a misposted reimbursement entry; and the fourth Court's fund balance was understated by $1,452 as a result of recording account adjustments after the financial statements were published. These errors are not considered material to the Courts' overall financial reporting.

# Audit Results and Findings for Individual Courts

**Overview**

This report summarizes the results of the SCO audit of six Courts during FY 2019-20 and FY 2020-21.The findings included below are presented as they were stated in the Trial Court Audit reports issued by the SCO in calendar years 2021 and 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.

## Madera County Superior Court (FY 2019-20)

**Audit Results**

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, we also identified instances of accounting errors and internal control deficiencies that are not significant to the audit objectives, but warrants the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned, and expenditures that were not reported correctly in the Court's financial statements for the fiscal year in which they were incurred. We also found internal control deficiencies related to missing documentation. In addition, we found an instance in which payroll charges were posted to an incorrect account.

Amount of error: $202,999

The Court agreed with the findings.

**FINDING 1—
Unadjusted revenues**

In our testing of revenue transactions, we noted several instances of unadjusted revenue posted to the current-year (FY 2019-20) operating accounts. The Court did not adjust its revenue accounts for differences between prior-year (FY 2018-19) revenues that were received during the current year and the amounts that had been accrued in the prior year.

All judicial branch trial courts use the SAP (Phoenix) accounting system, which uses automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year.

Revenue that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

We noted other differences that occurred in revenue accounts because deposits for the prior year were received during the current year, but were not accrued in the prior year. Such differences lead to overstated current-year program account balances when not adjusted.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, general ledger (GL) Account Number 899910 and promote more accurate reporting of program revenue earned in the current fiscal year.

Following is a summary of revenue accrual adjustment and posting errors:

- GL Account Number 834010 (TCTF – Court Interpreter) – The Court accrued $52,755 in the prior year (FY 2018-19) that was not received subsequently in the current year (FY 2019-20). This unadjusted difference resulted in the current-year program revenue account being understated by $52,755.
- GL Account Number 831012 (General Fund – Prisoner Hearing Costs) – The Court received a deposit of prior-year reimbursement revenue for $35,799, but accrued $42,008 in the prior year. This unadjusted difference resulted in the current-year program revenue account being understated by $6,208.
- GL Account Number 832011 (TCTF – Jury)
  - The Court received a $7,259 deposit of prior-year reimbursement revenue that was not accrued in the prior year. This unadjusted difference resulted in the program revenue account balance being overstated by $7,259.
  - The Court expended reimbursable costs of $611 during the current year, but did not accrue a reimbursement. This accrual error resulted in the current-year program revenue account balance being understated by $611.
- GL Account Number 832010 (TCTF – MOU [memorandum of understanding] Reimbursements) – The Court incorrectly posted a Case Management program reimbursement of $125,796 to this account. The reimbursement should have been posted to GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement). This error resulted in GL Account Number 832010 (TCTF – MOU Reimbursements) being overstated by $125,796.
- GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement)
  - The Court incorrectly posted a Case Management program reimbursement of $125,796 to GL Account Number 832010 (TCTF – MOU Reimbursements). This error understates the State Trial Court Improvement and Modernization Fund Reimbursement account by $125,796.
  - The Court incorrectly posted a Case Management program reimbursement of $101,194 to the expense account of IT Software and License Fees, GL Account Number 943502. This error understates both the State Trial Court Improvement and

Modernization Fund Reimbursement revenue and the Information Technology expenditures by $101,194 each.

- The Court received a deposit of prior-year revenue for $11,884 that was not accrued in the prior year. This unadjusted deposit overstates the State Trial Court Improvement and Modernization Fund Reimbursement program revenue by $11,884.
- The Court received a reimbursement for $28,408 toward the Jury System Grant program. Of this amount, $11,938 applied to expenditures incurred in the prior year. The unadjusted deposit overstates the State Trial Court Improvement and Modernization Fund Reimbursement program revenue by $11,938.

In connection with our review of transactions recorded in GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement), we noted also that the Court records its Jury System Grant project reimbursements and expenditures in different funds. Grant-specific reimbursements and expenditures should be reported in the same fund for comparability of program activities.

Reimbursements are deposited into the Court's General Fund (Fund Number 110001) through a claims process with the JCC. The Court records its project expenditures in the 2% Automation Fund (Fund Number 180004) and views the 2% Automation Fund as the best and most consistent choice of funds because the funding appropriated to the Improvement and Modernization Fund is restricted for use on Jury Systems.

The JCC classifies the 2% Automation Fund as a restricted special revenue fund in its trial court accounting system. By moving the reimbursement deposits from the General Fund to the 2% Automation Fund through inter-fund transfers, the Court will more correctly match both the source and use of funds and improve its financial reporting.

The exceptions noted above resulted in an overall understatement of $101,805 in reported program revenue for FY 2019-20 operating accounts. 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 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 provides guidance to courts for using the Prior-Year Revenue Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Page 64, "Automated Accrual Reversal Process," of the JCC's FY 2019-20 *Year-End Close Training Manual–General Ledger* states:

> As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal 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: <u>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 fiscal year.</u>

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 JCC's FIN Manual (10th edition, June 2019) 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— Unadjusted expenditures**

In our testing of the Court's FY 2019-20 Contracted Services expenditures, we found a $141,065 prior-year (FY 2018-19) transaction that was processed and recorded in the current-year operating account, GL Account Number 938404 (Administrative). The administrative charges had not been previously accrued and no entry was made to GL Account Number 999910 (Prior Year Expense Adjustment) to reclassify the unaccrued transaction.

The guidance for unadjusted expenditures is the same as for unadjusted revenues.

Page 64, "Automated Accrual Reversal Process," of the JCC's FY 2019-20 *Year-End Close Training Manual–General Ledger* states:

> As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal 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 fiscal 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 JCC's FIN Manual (10th edition, June 2019) 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 3—Internal control deficiency – Missing vendor contracts**

As part of testing expenditures for Contracted Services, we also asked to inspect supporting documentation for psychological and psychiatric evaluations. We found that the Court does not have contracts with the vendors that provide these services. To substantiate the expenditures, the Court provided adequate supporting claim records and court orders that identify case numbers, psychological evaluators, and details of services requested. We noted no excessive charges, abuse, accounting errors, or improper authorizations.

We also reviewed contracting policies established by the Court and by the JCC for guidance. Using some form of agreement when acquiring vendor services is a best practice and a routine operating requirement to control costs and liabilities. We acknowledge that the Court operates with a small staff and in a small community with fewer vendor resources and, as a result, the Court may face difficulties in obtaining some services and contracts. However, the Court should establish basic written procedures for acquiring and contracting the services that are unique to the Court's needs.

**FINDING 4—Internal control deficiency – Missing personnel records; payroll charges posted to an incorrect account**

We included in our expenditure testing a review of the Court's salaries and benefits accounting. Our procedures included reviewing a sample of employee payroll records and health benefit election forms. We reviewed these records to verify that the Court maintains properly authorized and completed forms, and to verify that expenditures are being recorded accurately in the accounting records.

We noted two exceptions in our testing of payroll and benefits accounting:

- We inspected benefit election forms to verify that they were correctly completed and approved by the Court and signed by appropriate employees. For two of nine samples selected, the Court was unable to provide employee-signed health benefits election forms; however, the Court was able to provide adequate alternative documentation to substantiate benefit elections and amounts charged for the two employees. As a best practice of internal control and compliance and to reduce the risk of dispute or error, the Court should maintain in its official personnel files signed, original election forms for all employees.
- In reviewing payroll records, we observed that charges for temporary help employees were incorrectly posted to a salaries account, GL Account Number 900301 (Permanent), instead of to GL Account Number 903301 (Temp Help). Court representatives stated that temporary help charges are posted as permanent salaries on its monthly payroll register; however, these charges should be posted in the Temp Help account (GL Account Number 903301). Reconciling payroll registers and ledger records should reveal inconsistencies so that errors can be corrected, even if they are not significant. The share of the Court's temporary help charges is not significant to the Court's total salaries and benefit expenditures. However, the Court does include temporary help costs in preparing its annual budgets, and would benefit from improving the accuracy of the accounting information it uses to forecast and budget costs.

## Calaveras County Superior Court (FY 2020-21)

### Audit Results

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, we identified accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. We also found account entry errors, and errors in expenditures and fund balances reported in the Court's Q4 Statement. In addition, we noted internal control deficiencies related to a lack of signed documentation and local contracting policies.

Amount of error: $1,452

The Court agreed with the findings.

### FINDING 1—Unadjusted revenues

In our testing of revenue transactions, we noted an unadjusted entry in the Court's current-year (FY 2020-21) reimbursement accounts. The Court did not adjust its revenue accounts for differences between prior-year (FY 2019-20) revenues that were received during the current year and the amounts that had been accrued in the prior year.

All judicial branch trial courts use an accounting system that has automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year. Revenue that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

Difference adjustments reclassify transactions away from budgeted program operating accounts into GL Account Number 899910 (Prior Year Revenue Adjustment), and promote more accurate reporting of program revenue earned in the current fiscal year.

We noted a revenue accrual-related adjustment error affecting GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement). The Court received a deposit of prior-year reimbursement revenue for $5,418 but accrued $3,980 in the prior year. This unadjusted difference resulted in the current-year program reimbursement account (GL Account Number 837011) being overstated by $1,438.

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 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 provides guidance to courts for using the Prior-Year Revenue Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Section 7.1, "Automated Accrual Reversal Process," of the JCC's FY 2020-21 *Year-End Close Training Manual–General Ledger* states, in part:

> As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2021 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 07/01/2021.
>
> Note: <u>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 accounts are to be used in the subsequent fiscal year.</u>

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's FIN Manual (11th edition, June 2020) 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 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—Account entry errors**

In our testing of revenue transactions, we found two instances in which the Court posted entries to incorrect accounts:

- GL Account Number 837011 (State Trial Court Improvement and Modernization Fund Reimbursement) – The Court accrued a $25,442 reimbursement for its Jury System Grant Program in the prior year, but recorded the subsequent reimbursement that it received during the current year in an incorrect account, GL Account Number 832010 (TCTF – MOU Reimbursements). Because the reimbursement of this prior-year accrual was not recorded in the correct account (GL Account Number 837011), the State Trial Court Improvement and Modernization Fund Reimbursement account was understated by $25,442, and the TCTF – MOU Reimbursements account was overstated by $25,442. At year-end, the State Trial Court Improvement and Modernization Fund Reimbursement account reported a negative balance in its financial statement. However, because these accounts offset each other, there is no effect on overall reported total revenue.
- GL Account Number 838020 (Other Judicial Council Grants) – The Court incorrectly transferred funds out of this account to defer unspent Pre-Trial Pilot Program funds for future project spending. However, Pre-Trial Pilot Program revenues are recorded in GL Account Number 831013 (General Fund – MOU Reimbursements); therefore, the transfer should have been made from the General Fund – MOU Reimbursements account to GL Account Number 342001 (Reimbursements Collected in Advance). The misclassified transfer resulted in an understatement of $87,614 in reported revenue for the General Fund – MOU Reimbursements account and an overstatement of $87,614 for the Other Judicial Council Grants account.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's 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 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 3—Financial statement reporting errors**

In our testing of expenditure accounts, we found variances between the balances of two accounts reported in the Court's Q4 Statement and its general ledger:

- Salaries – Permanent – the Q4 Statement showed $1,802,634, which is $2,528 more than the general ledger amount of $1,800,106.
- Staff Benefits – the Q4 Statement showed $798,551, which is $1,077 less than the general ledger amount of $799,628.

As a result, the Court's reported total expenditures in its Q4 Statement were overstated by $1,451 and its combined fund balance total was understated by $1,451 for the fiscal year ending June 30, 2021. The difference was created by adjusting the accounts after the Court submitted its Q4 Statement for publishing.

The JCC Branch Accounting function provides guidance and centralized support to courts for accounting and reporting. The JCC publishes on its website each court's set of quarterly certified financial statements. These financial statements include a certification letter signed by the court executive officer.

Each year, the JCC notifies courts of quarterly reporting and general ledger closing due dates. The JCC closes the general ledger to courts, but it remains open to Branch Accounting for adjusting and closing for the year. The courts submit a Q4 Statement before the JCC finalizes account entries to close the courts' general ledgers. The Court indicated that the JCC adjusted the accounts in the period after the Court submitted its Q4 Statement and before the JCC finalized the year-end general ledger.

Section 3, "Planning for Year-End," of the Phoenix *Year-End Close General Ledger, FY 2020-2021*, states:

> The Trial Courts must create a work plan or task list that identifies specific year-end activities required to meet the year-end financial reporting due dates. If courts do not meet the established dates, the JCC cannot meet the deadline for submitting the [Annual Comprehensive Financial Report] to the State Controller's Office.

**FINDING 4—Internal control deficiency – Lack of signed vendor contracts and local contracting policies**

As part of testing the Contracted Services and the Consulting and Professional Services expenditure accounts, we requested supporting documentation for selected service-related charges. We found that the Court does not have contracts with five of its vendors. To substantiate the recorded charges, the Court provided invoices, requisitions, and a declaration form regarding application for order on payment of fees/costs.

We also found that the Court does not maintain local policies for procuring some unique services that are not addressed in JCC contracting policies. These unique vendor services included court interpretation, court reporting, dependency counsel, and psychiatric evaluation.

Formal agreements are essential in ensuring that the contracting process follows policy guidelines and creates a standard of documentation throughout the Judicial Branch.

In reviewing JCC policies, we found that the *Judicial Branch Contracting Manual* (revised effective October 1, 2020) contains two provisions that are relevant to a court's contracting for unique vendor services:

- Introduction, page 5 ("Local Contracting Manual") requires each judicial branch entity to adopt a Local Contracting Manual for procurement and contracting for goods and services by that judicial branch entity.
- Introduction, pages 5–6 ("Content and Exclusions") state that "the Manual does not address procurement and contracting for . . . contracts that are unique to the judicial branch and are not subject to the [Judicial Branch Contract Law] or this Manual," including "contracts between a court and a court interpreter when the court interpreter provides services as an independent contractor."

More recently, the JCC issued additional guidance to courts for interpreter services in its "Payment Policies for Independent Contractor Interpreters" (effective July 1, 2021). This revised policy incorporated a provision requiring that courts establish a written agreement with contracted interpreters.

Section III.A, "Written Agreement," of the policy states:

> A written agreement, defining the costs, rates, scope of work, and terms and conditions, must be in place between the court and independent contractor interpreter . . . before service is provided.

## Fresno County Superior Court (FY 2020-21)

**Audit Results**

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies for revenues, expenditures, and fund balances. However, we also identified accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. We also found internal control deficiencies relating to the use and approval of an incorrect overtime pay rate and improper timesheet approval.

Amount of error: $0

The Court agreed with the findings.

**FINDING 1— Unadjusted revenues**

In our testing of revenue transactions, we noted two instances of unadjusted entries in the Court's current-year (FY 2020-21) operating accounts. In each of these instances, the Court did not adjust its revenue accounts for differences between prior-year (FY 2019-20) revenues that were received during the current year and the amounts that had been accrued in the prior year. Unadjusted differences lead to misstated program revenues for the current-year financial reporting.

All judicial branch trial courts use an accounting system that has automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year. Revenue (including reimbursements) that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, GL Account Number 899910, and promote more accurate reporting of program revenue earned in the current fiscal year.

We noted the following unadjusted reimbursements:

GL Account Number 812168 (TCTF – Court Reporter for Proceedings Under One Hour) – The Court received $4,076 of prior-year revenue. No adjustment was made to reclassify the revenue difference to GL Account Number 899910 (Prior Year Revenue Adjustment). This unadjusted difference resulted in the current year's Court Reporter program account being overstated by $4,076.

GL Account Number 832011 (TCTF – Jury) – In FY 2019-20, the Court accrued a jury reimbursement of $15,792 that was not subsequently received and deposited in the account during the following fiscal year. The reversal created a shortfall difference of program reimbursements in the Jury account. The difference was not reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment) and resulted in current-year operating reimbursements being understated by $15,792.

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 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 provides guidance to courts for using the Prior Year Revenue Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Section 7.1, "Automated Accrual Reversal Process," of the JCC's FY 2020-21 *Year-End Close Training Manual–General Ledger* states, in part:

> As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2021 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 07/01/2021.
> 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 accounts are to be used in the subsequent fiscal year.

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's FIN Manual (11th edition, June 2020) 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 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 – Use and approval of incorrect overtime pay rate**

The Court's salaries and benefits expenditure accounts were considered material for the audit and our procedures included reviewing a sample of employee time records, payroll registers, and health benefit election forms to verify the accuracy, recording, and authorization of amounts charged.

Our test involved selecting a sample of 10 employees for two bi-weekly pay periods. Two employees in the sample earned overtime pay during the two pay periods. We recalculated overtime salary payments and found that the rates of overtime pay were inconsistent for the two employees. Both employees were entitled to a bilingual pay incentive. The Court included the bilingual pay incentive when it calculated the overtime pay rate for one employee, but it did not include the bilingual pay incentive when it calculated the overtime pay rate for the other employee, who was underpaid. Court staff members acknowledged that the bilingual pay incentive should have been included in calculating the employee's overtime rate.

We further reviewed the records of all employees in each of the two pay period registers who received both overtime pay and the bilingual pay incentive. We noted three additional employees with overtime pay rates that did not include the bilingual pay incentive.

To clarify our understanding of compensation rules, we reviewed employee-related court policies and agreements with the represented employee service union, and found that the language in all documents specifies a time-associated rate of 1.5 hours in overtime compensation. We located the Court's salary and overtime policies in "Article 9—Classification and Compensation" of the Court's *Personnel Manual*, Amended 2021. The overtime policy specifies that compensation be paid using a "regular" rate of pay. We were unable to find a definition of the "regular" rate, although we noted that a regular employee rate in the pay register is shown as the base salary rate without a pay incentive.

After we discovered the error, Court staff members indicated that they corrected the employee's pay rate and payroll records. In the context of expenditure accounting, Court staff members indicated that the recalculated difference in the rate of overtime pay was $0.42 per hour. Although the discrepancy is small, the lack of formal written procedures to calculate a standardized overtime pay rate creates the potential of further pay rate errors, and the risk of employment disputes over salaries and benefits. The methodology for calculating overtime rates of pay should be documented and uniformly performed.

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

During our review of employee time records, we included a Commissioner in our test sample. While verifying attendance records and authorizations, we noted that the Commissioner's timesheet had been approved by a non-judicial court manager (Division Manager II/Department Manager). In the normal course of attendance recording, a direct supervisor is the approver for an employee's timesheet. Under the California Rules of Court, the Presiding Judge is charged with exercising oversight of judicial officers and should approve the Commissioner's timesheets. Alternatively, the Presiding Judge may delegate this duty to an appropriate judicial officer, such as a Master Calendar Judge or the Court Executive Officer. However, the Court did not have a record of delegation from the Presiding Judge for this duty.

CRC rule 10.603, paragraph (d), "Delegation," states:

> The Presiding Judge may delegate any of the specific duties listed in this rule to another judge. Except for the duties listed in (c)(5)(B) and (c)(6)(C) [these sections pertain to Court Executive Officer compensation], the Presiding Judge may delegate to the Court Executive Officer any of the duties listed in this rule that do not require the exercise of judicial authority.

In response to our inquiry, Court staff members provided us with an untitled document signed by the Presiding Judge on May 3, 2022, delegating the Commissioner's timesheet approval to the "master calendar manager, or their manager." The document was not prepared using the JCC template approved for courts to use in delegations by the Presiding Judge.

## Humboldt County Superior Court (FY 2020-21)

**Audit Results**

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and policies for revenue, expenditures, and fund balances. However, we identified accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned. We also noted internal control deficiencies related to a lack of signed contracts and personnel forms, and to accounting system user access. We found a lack of signed contracts for vendor services, and a lack of signed overtime approval and employee health benefits election forms. We also found that a former employee had not been removed from the list of users authorized to access the Court's accounting system.

Amount of error: $0

The Court agreed with the findings.

**FINDING 1—Unadjusted revenues**

In our testing of revenue transactions, we noted three instances of unadjusted entries in the Court's current-year (FY 2020-21) operating accounts.

In each of these instances, the Court did not adjust its revenue accounts for differences between prior-year (FY 2019-20) revenues that were received during the current year and the amounts that had been accrued in the prior year. We also noted one deposit that was misclassified to an incorrect revenue account.

All judicial branch trial courts use an accounting system that has automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year. Revenue that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, GL Account Number 899910, and promote more accurate reporting of program revenue earned in the current fiscal year.

We noted the following revenue accrual adjustment and posting errors:

- GL Account Number 812146 (TCTF – Copy Preparation) – The Court accrued $685 in the prior year (FY 2019-20) that was not received subsequently in the current year (FY 2020-21). This unadjusted difference resulted in the current-year program revenue account being understated by $685.
- GL Account Number 812155 (TCTF – Conservatorship Investigation) – The Court received a $3,284 deposit of prior-year reimbursement revenue, but accrued $3,882 in the prior year. This unadjusted difference resulted in the current-year program revenue account being understated by $598.
- GL Account Number 832013 (TCTF – Elder/Dependent Adult Abuse) – The Court accrued $2,220 in the prior year (FY 2019-20) that was not received subsequently in the current year (FY 2020-21). This unadjusted difference resulted in the current-year program revenue account being understated by $2,220.
- GL Account Number 832010 (TCTF – MOU Reimbursements) – The Court misclassified a reimbursement of $5,920 for its Improving Educational Outcomes for Tribal Youth program as a TCTF reimbursement instead of as a General Fund reimbursement. This reimbursement should have been recorded in GL Account Number 831013 (General Fund – MOU Reimbursements). This error had no effect on the Court's reported revenue total.

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 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 provides guidance to courts for using the Prior Year Revenue Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Section 7.1, "Automated Accrual Reversal Process," of the JCC's FY 2020-21 *Year-End Close Training Manual–General Ledger* states, in part:

> As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2021 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 07/01/2021.
>
> Note: <u>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 accounts are to be used in the subsequent fiscal year.</u>

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's FIN Manual (11th edition, June 2020) 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 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 – Lack of signed vendor contracts and local contracting policies**

As part of testing Contracted Services expenditures, we requested supporting documentation for selected court interpreter charges and found that the Court does not have contracts with three vendors who provided these services. To substantiate these charges, the Court provided invoices for interpreter services, court interpreter daily activity logs, and correspondence between the vendors and the Court's Coordinating Supervisor.

We also found that the Court does not maintain a policy for contracting with court interpreters.

In reviewing JCC policies, we found that the *Judicial Branch Contracting Manual* (revised effective August 1, 2018) contains two provisions that are relevant to a court's contracting and interpreting services:

- Page 5 ("Local Contracting Manual") requires each judicial branch entity to adopt a Local Contracting Manual for procurement and contracting for goods and services by that judicial branch entity.
- Pages 5–6 ("Content and Exclusions") state that "the Manual does not address procurement and contracting for . . . contracts that are unique to the judicial branch and are not subject to the [Judicial Branch Contract Law] or this Manual," including "contracts between a court and a court interpreter when the court interpreter provides services as an independent contractor."

We also found that the JCC issued "Payment Policies for Independent Contractor Interpreters" (effective July 1, 2021). This revised policy incorporated a provision requiring that courts establish a written agreement with contracted interpreters. Section III.A, "Written Agreement," of the policy states:

> A written agreement defining the costs, rates, scope of work, and terms and conditions, must be in place between the court and independent contractor interpreter (hereinafter referred to as "interpreter") before service is provided.

These agreements are essential in ensuring that the contracting process follows policy guidelines and creates a standard of documentation throughout the Judicial Branch.

**FINDING 3—Internal control deficiency – Lack of signed personnel records**

We included in our expenditure testing a review of the Court's salaries and benefits accounting. Our procedures included reviewing a sample of employee health benefit election forms and attendance records to verify that the Court maintains properly authorized and completed forms, and to verify that expenditures are being recorded accurately in the accounting records.

We selected six employees and noted two exceptions in our testing of payroll and benefits accounting:

- For one of the six employees, the Court was unable to provide the health benefit election form signed by the Health Benefit Officer and the employee. The Court provided alternative records to substantiate the benefit elections and amounts charged for the employee.
- For one of the six employees, the Court could not provide documentation for pre-approval of overtime worked. Court staff stated that the employee directly reports to the Court Executive Officer and is given a verbal approval prior to working overtime.

As a best practice of internal control and compliance and to reduce the risk of dispute or error, the Court should maintain signed original health benefit election forms and time records for all employees in its official personnel files.

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 4— Internal control deficiency – Accounting system user access list not updated**

During our evaluation of the electronic access controls for the Court's accounting system, we noted that the Court's user list included the username of an employee who is no longer employed by the Court.

The courts are bound by JCC internal policies and an organizational structure designed to protect information assets. An effective system of internal controls includes various control activities to help mitigate significant risks.

On behalf of courts, the JCC maintains the accounting system, and centrally controls creation, modification, and deletion of user accounts through its shared services center staff. This centralized function operates to assist courts in securing system data records and safeguarding information and resources. Each court individually identifies its staffing and operational needs, approves its user privileges, and submits system access request forms to the JCC's system security staff to create, modify, and delete user accounts.

## San Bernardino County Superior Court (FY 2020-21)

**Audit Results**

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies for revenues, expenditures, and fund balances. However, we also identified accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned, entries that were misclassified to an incorrect revenue account, and a duplicate entry.

Amount of error: $20,194

The Court agreed with the findings.

**FINDING— Unadjusted revenues**

In our testing of revenue transactions, we noted instances of unadjusted revenues and posting errors in the Court's current-year (FY 2020-21) operating accounts.

In four instances, the Court did not adjust its revenue accounts for differences between prior-year (FY 2019-20) revenues that were received during the current year and the amounts that had been accrued in the prior year. We also noted two instances of entries that were misclassified to an incorrect revenue account, and a duplicate entry that resulted in a $19,819 overstatement of current-year program revenue.

All judicial branch trial courts use an accounting system that has automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year opening process. Revenue that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, GL Account Number 899910, and promote more accurate reporting of program revenue earned in the current fiscal year.

A summary of unadjusted revenues and posting errors is as follows:

- GL Account Number 834010 (TCTF – Court Interpreter) – The Court received a $954,329 prior-year reimbursement, but accrued $1,117,858 in the prior year. The Court incorrectly recorded the $954,329 in GL Account Number 899910 (Prior Year Revenue Adjustment). Reimbursements should be recorded in the same account of accrual to offset the automated reversal of prior-year accruals that occur in opening account balances with each new fiscal year. As a result of the incorrect entry, the revenue reported in the Court's TCTF – Court Interpreter account was understated by $954,329, while the Prior Year Revenue Adjustment account was overstated equally at year-end. Although balances presented in each account were incorrect, the overall revenue reported for the Court at year-end was not misstated.
- GL Account Number 831010 (General Fund – AB2695 Service of Process) – The Court received a $23,135 reimbursement, but accrued $12,585 in the prior year. The $10,550 excess should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment). The unadjusted difference resulted in a $10,550 overstatement of current-year program revenue.
- GL Account Number 831013 (General Fund – MOU Reimbursements) – The Court accrued $10,175 in the prior year that was not received in the current year. The reversal to the account's opening balance was not offset, and resulted in a $10,175 understatement of the account's revenue. The shortfall should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment). Court representatives also indicated that the prior-year accrual should have been recorded in GL Account Number 832013 (TCTF – Elder/Dependent Adult Abuse) instead of GL Account Number 831013 (General Fund – MOU Reimbursements).
- GL Account Number 832011 (TCTF – Jury) – The Court recorded a $19,819 duplicate accrual entry that resulted in a $19,819 overstatement of current-year program revenue.

The exceptions noted above resulted in an overall overstatement of $20,194 in reported program revenue for the FY 2020-21 operating accounts.

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 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 provides guidance to courts for using the Prior-Year Revenue Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Section 7.1, "Automated Accrual Reversal Process," of the JCC's FY 2020-21 *Year-End Close Training Manual–General Ledger* states, in part:

> As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2021 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 07/01/2021.
>
> Note: <u>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 accounts are to be used in the subsequent fiscal year.</u>

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's FIN Manual (11th edition, June 2020) 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 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.

## San Luis Obispo County Superior Court (FY 2020-21)

### Audit Results

Our audit found that the Court substantially complied with governing statutes, rules, regulations, and Judicial Branch policies for revenues, expenditures, and fund balances. However, we also identified instances of accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statements for the fiscal year in which they were earned, and errors in the expenditures and fund balances presented in the Court's

Q4 Statement. We also found an internal control deficiency related to missing vendor agreements.

Amount of error: $10,283

The Court agreed with the findings.

**FINDING 1— Unadjusted revenues**

While testing revenue transactions, we noted three instances in which the Court did not adjust revenue accounts for differences between prior-year (FY 2019-20) revenues that were accrued in the prior year and amounts received during the current year (FY 2020-01).

All judicial branch trial courts use an accounting system with automated account closing and opening processes. Year-end accruals are automatically reversed in the subsequent year. Revenue (including reimbursements) that is accrued to an account at the end of a fiscal year, but is not fully collected in the subsequent fiscal year, produces a deficit in the account and understates the current-year account balance. The deficit may be offset by a deposit, another accrual, or an adjusting entry.

Difference adjustments reclassify transactions into the Prior Year Revenue Adjustment account, GL Account Number 899910, and promote more accurate reporting of program revenue earned in the current fiscal year.

We noted the following unadjusted reimbursements for prior-year program activities that were not accrued:

- GL Account Number 812157 (TCTF – Children's Waiting Room) – The Court received $1,663 for FY 2019-20. This unadjusted difference resulted in the current-year program revenue account being overstated by $1,663.
- GL Account Number 812160 (TCTF – Automated Recordkeeping and Micrographics) – The Court received $998 for FY 2019-20. This unadjusted difference resulted in the current-year program revenue account being overstated by $998.
- GL Account Number 831012 (GF [General Fund] – Prisoner Hearing Costs) – The Court received $61,748 for a FY 2018-19 second-quarter reimbursement claim. This unadjusted difference resulted in the current-year program revenue account being overstated by $61,748.

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 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 provides guidance to courts for using the Prior-Year Revenue Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Section 7.1, "Automated Accrual Reversal Process," of the JCC's FY 2020-21 *Year-End Close Training Manual–General Ledger* states, in part:

> As previously discussed, most expenditure and revenue accruals are automatically reversed in the new fiscal year by placing Z2 and 07/01/2021 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 07/01/2021.
>
> Note: <u>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 accounts are to be used in the subsequent fiscal year.</u>

Policy Number FIN 5.02, section 3.0, "Policy Statement," of the JCC's FIN Manual (11th edition, June 2020) 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 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— Financial statement reporting errors**

The JCC publishes on its website each court's set of certified quarterly financial statements. The financial statements include a certification letter signed by the presiding judge. We found variances between the amounts reported in the Court's Q4 Statement and its general ledger balances for two expenditure accounts.

For the Contracted Services and Information Technology accounts, we found variances between the Q4 Statement and the general ledger balances:

- Contracted Services – The general ledger shows expenditures of $1,277,071 and the Q4 Statement shows expenditures of $1,266,794. Therefore, the Court's Q4 Statement was understated by $10,283. As a result, the Court's total reported expenditures and its total combined fund balance for the fiscal year ending June 30, 2021, were also understated by $10,283.

  The Court provided us with documentation showing that during the Court's year-end financial reporting and closing processes, an expenditure accrual entry had been misposted to the FY 2021-22 general ledger account balance. The entry was subsequently reversed and correctly included in the FY 2020-21 general ledger account balance. The reversing adjustment was entered after the Court submitted its Q4 Statement to the JCC, but prior to closing the year-end general ledger.

- Information Technology – For the following two funds, the expenditure amounts reported in the Court's Q4 Statement did not match the expenditure amounts recorded at year-end in the Court's general ledger:
  - General Fund – the Q4 Statement shows expenditures of $196,763 and the general ledger shows expenditures of $311,285.
  - Non-Grant Special Revenue Fund – the Q4 Statement shows expenditures of $274,316 and the general ledger shows expenditures of $159,794.

The courts submit a Q4 Statement to the JCC before the JCC closes and finalizes the Court's general ledger. Each year, the JCC notifies courts of due dates for quarterly reports and general ledger closing dates. During the time frame between submitting the Q4 Statement and finalizing the year-end general ledger, the Court reclassified and adjusted expenditures between funds. The account's combined totals did not change.

Section 3, "Planning for the Year-End," of the Phoenix *Year-End Close General Ledger, FY 2020-2021*, states:

> The Trial Courts must create a work plan or task list that identifies specific year-end activities required to meet the year-end financial reporting due dates. If courts do not meet the established dates, the JCC cannot meet the deadline for submitting the [Annual Comprehensive Financial Report] to the State Controllers' Office.

**FINDING 3— Internal control deficiency – Missing vendor agreements**

While reviewing expenditure transactions, we found that the Court did not have agreements with two vendors. Our expenditure testing includes reviewing underlying documentation, such as contractual agreements, invoices, purchase orders, grant documents, and correspondence, when needed. Procuring services is typically initiated and managed through some form of an agreement.

One of the vendors lacking an agreement is funded by a JCC grant to support the Collaborative Justice Courts Substance Abuse Focus Grant Program. Court staff stated that the Court does not have a current agreement with the vendor, and that its last agreement with the vendor was in 2007. Court staff further indicated that the Court has received Substance Abuse Focus Grant funding since at least 2007, and has been working with the vendor since that time to support drug abuse programs in partnership with the County's Drug and Alcohol Services Division.

For the second of the two vendors lacking an agreement, Court representatives explained that services were arranged with the vendor on the basis of a master agreement that the JCC established with the vendor. Court staff further stated that the Court did not prepare and use a separate participation agreement with the vendor. Under the terms of the master agreement, individual courts are required to prepare and use separate participation agreements with vendors. The master agreement provides a template participating agreement form.

In both instances, the Court has taken immediate steps to prepare current agreements with the vendors. The Court provided us with the partial agreements. The Court is awaiting vendor signatures.

Policy Number FIN 7.01, section 3.0, "Policy Statement," of the JCC's FIN Manual states:

> The trial court must execute a written contract when entering into agreements for services or complex procurements of goods. It is the responsibility of every court employee authorized to commit trial court resources to apply contract principles and procedures that protect the interests of the court.

Policy Number FIN 7.01, section 6.6, "Master Agreements," item 2, of the JCC's FIN Manual states:

> When service requirements arise that may be filled under a master agreement, the trial court issues a written authorization [participation agreement] to the provider that describes the services to be performed. Service authorizations must be within the scope, period, and maximum value of the agreement. Each authorization must contain the following information:
>
> a. Name of the person placing the order.
>
> b. Date of the authorization.
>
> c. Contact number and authorization number.
>
> d. A description of the work to be performed and associated cost or unit rate.
>
> e. Delivery or performance rate.
>
> f. Place of delivery or performance.
>
> g. Any other pertinent.

Section 9.1A., "Payment Fundamentals," of the *Judicial Branch Contracting Manual* (revised August 1, 2018) states:

> Payments should not be processed or released by a JBE [Judicial Branch Entity] to a Vendor for any goods or services unless the JBE possesses all of the following:
>
> - A properly authorized contract;
> - Documentation verifying the goods/services were satisfactorily received and/or performed; and
> - An accurate, properly submitted Vendor invoice.

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

**http://www.sco.ca.gov**

S23-TCA-7000