SUPERIOR COURTS OF CALIFORNIA

Report to the California State Legislature

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2020, through June 30, 2021

MALIA M. COHEN
California State Controller

March 2024

MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 29, 2024

California State Legislature
State Capitol Building
Sacramento, CA 95814

Dear Members of the California State Legislature:

I am pleased to present our 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 five audits of Superior Courts with audit periods between July 1, 2020, 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 the enclosed report, please have a member of your team contact Cathy Leal, Acting Chief Operating Officer, by telephone at (916) 720-3089.

Sincerely,

Original signed by

MALIA M. COHEN

Contents

Report Summary

Overview

This report summarizes the results of the State Controller's Office (SCO) audits of the Superior Courts of California (trial courts) conducted in fiscal year (FY) 2022-23. This report has been prepared pursuant to Government Code (GC) section 77206(h)(3).

The SCO audited the following trial courts for the period of July 1, 2020, through June 30, 2021:

- Alameda County Superior Court
- Butte County Superior Court
- Contra Costa County Superior Court
- Kings County Superior Court
- Lake County Superior Court

The purpose of these audits is to determine whether the trial 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 $194,877,229 in recorded revenues, $195,410,997 in recorded expenditures and $15,114,266 in recorded fund balances. We found $713,868 in cumulative financial reporting errors and several internal control deficiencies.

The reported audit findings are classified as follows:

- Accounting misstatements and errors
  - Unadjusted revenues
  - Unadjusted expenditures
  - Account entry error
- Internal control deficiencies
  - Lack of complete and current agreement with county
  - Lack of signed vendor contracts and local contracting policies
  - Timesheet approval and separation of duties
  - Inconsistent application of access controls
  - Vendor contract not executed
  - Delegation of authority for Court Executive Officer

Except for the issues described in the Audit Results and Findings for Individual Courts, we found that the trial 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 trial court audited.

Background

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

With respect to trial court operations, CRC rule 10.810 provides cost definitions (inclusive of salaries and benefits, certain court-appointed counsel provisions, services and supplies, collective bargaining, and indirect costs), exclusions to court operations, budget appropriations for counties, and functional budget categories. GC section 77001 provides trial courts with the authority and responsibility for managing their own operations.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components form the core 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 2021-22, approximately 73% of the audited trial courts' total revenues were generated by TCTF allocations. Of amounts expended by these trial courts, approximately 76% represents employee salaries and benefits.

The audited trial courts employed approximately 1,305 staff members to fulfill the operational and administrative activities necessary to serve the respective county of each trial court. The aggregate population for the counties served by audited trial courts was approximately 3,242,462 persons.

Funds under each trial court's control include a General Fund, a Special Revenue Non-Grant Fund, and a Special Revenue Grant Fund. Some trial courts have also 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 performed the audits at the request of the JCC, pursuant to GC section 77206(j), which requires the JCC to contract with the SCO to perform trial court audits; 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 California State 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 trial 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 this audit 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, 2021, through June 30, 2022.

To accomplish our objective, we performed the following procedures.

General Procedures

- We reviewed the Judicial Council Governance Policies (November 2017), the FY 2020-21 Budget Act, the Manual of State Funds, Government Code, the California Rules of Court, the FIN Manual (11th edition, June 2020), 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 trial courts' current policies and procedures, organization, and website, and interviewed trial court personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.

- We interviewed trial 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 trial 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 trial courts' financial and human resources systems; (2) reviewing trial court policies; (3) agreeing accounting data files with published financial reports; (4) tracing recorded data to source documents to verify the completeness and accuracy of recorded data; and (5) reviewing logical security and access controls for key trial court information systems. We determined that the data was sufficiently reliable for the purposes of achieving our audit 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 population from which test samples were selected.

We designed our testing to verify the trial 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 trial 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 trial 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 five Superior Courts of California (trial courts). This page summarizes the results of all five audits.

Revenue Testing

We tested $169,223,710 of $194,877,229, or approximately 87% of total revenues. At the Butte and Contra Costa County Superior Courts, we identified unadjusted prior-year revenues and accrual-related accounting errors for prior-year activities that affected the trial courts' current-year (fiscal year 2020-21) operating accounts. Failure to properly accrue transactions in the correct time period produces inaccurate accounting and year-end financial reporting. At the Butte County Superior Court, we also found internal control deficiencies related to maintaining documentation to support revenue transactions.

Expenditure Testing

We tested $11,110,390 of $195,410,996, or approximately 6% of total expenditures. At the Alameda and Butte County Superior Courts, we identified expenditures that were not reported correctly in the trial courts' accounting records. Failure to properly accrue transactions in the correct time period produces inaccurate accounting and year-end financial reporting. We also found various internal control deficiencies such as: system access (Kings County Superior Court); timesheet approval (Butte County Superior Court); delegation of authority (Kings County Superior Court); and maintaining documentation to support interagency agreements (Alameda County Superior Court), vendor contracts (Alameda and Kings County Superior Courts), and expenditure transactions (Butte County Superior Court).

Fund Balance Testing

We recalculated sampled funds to ensure that fund balances as of 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 the Alameda, Butte, Kings, and Lake County Superior Courts; and that some error was present in fund balances reported by the Contra Costa County Superior Court. Our testing revealed that this trial court's General Fund balance was understated by $13,840 as a result of improperly accrued revenues. This error is not considered material to the trial court's overall financial reporting.

We considered the results of our revenue and expenditure testing to verify that transactions were recorded correctly. As part of our fund balance testing, we also reviewed the accounting transactions used to classify fund balances subject to restrictions and limitations, and found that each of the five trial courts followed established accounting procedures to record and classify fund balances at year-end.

Audit Results and Findings for Individual Courts

Overview

The findings included below are presented as they were stated in the audit reports issued by the State Controller's Office (SCO) in calendar year 2023. Unless otherwise indicated, the Superior Courts of California (trial courts) agreed with the findings and recommendations.

These findings and recommendations are solely for the information and use of the Legislature, the Judicial Council of California (JCC), the trial courts, the Department of Finance, and the 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.

Alameda County Superior Court (July 1, 2020, through June 30, 2021)

Audit Results

Our audit found that the trial 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 expenditures that were not reported correctly in the trial court's financial records for the fiscal year in which they were paid. We also found deficiencies in contracting for interpreter services and for intergovernmental services.

Amount of error (displayed by absolute value): $478,850

The trial court agreed with the findings.

FINDING 1— Unadjusted expenditures

During our review of the trial court's expenditures, we found disbursements for prior-year (fiscal year [FY] 2019-20) transactions that were recorded in current-year operating accounts and which were not accrued at year-end of the prior fiscal year. Accounting policies require that disbursements for prior-year-activities that were not accrued in the prior year be recorded in General Ledger (GL) Account Number 999910, Prior Year Expenditure Adjustment, instead of current-year operating accounts. The following expenditures for accounts and prior-year invoices were not accrued at FY 2019-20 year-end:

- GL Account Number 942901, County-Provided Services – The trial court paid $427,033 to the county's Probation Department for the Pre-Trial Court Pilot program. This entry resulted in a $427,033 overstatement of the current-year program account.
- GL Account Number 941101, Sheriff Reimbursement – AB [Assembly Bill] 2030/AB2695 – The trial court paid $2,565 to various sheriff's departments in other counties for restraining orders issued in the prior year for civil harassment cases. This entry resulted in a $2,565 overstatement of the current-year program account.

- GL Account Number 941199, Sheriff – The trial court paid $2,030 to various sheriff's departments in other counties for restraining orders issued in the prior year for domestic violence cases. This entry resulted in a $2,030 overstatement of the current-year program account.
- GL Account Number 942801, County – EDP [electronic data processing] Service – The trial court paid $42,080 to the county's Information Technology Department for initial costs of IT services related to the Pre-Trial Court Pilot program. This entry resulted in a $42,080 overstatement of the current-year program account.
- GL Account Number 935601, Alteration and Improvement – The trial court recorded a $5,041 program charge for FY 2019-20 "Ongoing Facility-Related Costs Incurred on Behalf of the Courts" deducted from the account in the October 2020 (Number 4) Trial Court Trust Fund (TCTF) distribution. This entry resulted in a $5,041 overstatement of the current-year program account.

The JCC's uniform Trial Court Chart of Accounts establishes an adjustment account (GL Account Number 999910, Prior Year Expenditure Adjustment) in the trial court general ledger to record any differences between an expenditure accrued at the end of the prior fiscal year and the actual disbursement in the current fiscal year. When an accrual is recorded, any difference between the amount accrued and the actual payment in the following fiscal year should be recorded to the adjustment account. Likewise, when an expenditure is not accrued in the prior fiscal year, the current fiscal year disbursement should be posted, also, to the adjustment account.

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 trial courts for using the Prior Year Expenditure Adjustment account in its annual *Year-End Close Training Manual–General Ledger*.

Section 7.1, "Automated Accrual Reversal Process," of the 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 complete and current agreement with county

During our review of the trial court's payroll expenditure accounting and reporting, we requested supporting documentation for monthly salary and benefit payments to the trial court's judges. The trial court provided a copy of its memorandum of understanding (MOU) with the county, which establishes an exchange of multiple intergovernmental services, including judges' compensation. We found deficiencies in the MOU regarding judges' compensation. In reading the MOU, we noted other deficiencies that warrant attention.

The MOU was executed in 2010 pursuant to Government Code (GC) section 77212, which authorizes the exchange of contracted services between the trial court and the county. It contains a provision that allows the county to compensate trial court judges with a monthly stipend for health benefits and reimbursement of job-related expenses. The MOU specifies an amount up to $2,300 each. Trial court records provided in support of our inquiry show that each judge currently receives approximately $5,122 in salaries and benefits—a significantly higher amount. The trial court acknowledged that payments have increased over time and that the MOU has not been updated.

In addition to being out of date, the MOU does not cite the appropriate statutory authority for the additional compensation. The supplemental judicial benefits are authorized by GC section 68220; however, the present MOU merely cites GC section 77212 as authority for creating intergovernmental service agreements.

During our review, we noted that the MOU details terms and conditions of four services: Pre-Trial Services, Collection Enhancement, Allocation of Pension Obligation Bonds Costs, and Judicial Benefits. However, in the past 12 years there have been changes in the services exchanged between the county and the trial court that the MOU has not been updated to reflect:

- The Pre-Trial Services program currently operates under a separate agreement.
- The Pension Obligation Bond has been retired, and the related service was discontinued.
- The county pays the trial court for Small Claims Advisory Services without an MOU or other formal agreement.

The MOU's language stipulates that amendments are required for changes when they occur. However, no amendments have been produced. The trial court's staff indicated that previous efforts to update the MOU with the county were unsuccessful.

GC section 68220 states:

> (a) Judges of a court whose judges received supplemental judicial benefits provided by the county or court, or both, as of July 1, 2008,

> shall continue to receive supplemental benefits from the county or court then paying the benefits on the same terms and conditions as were in effect on that date.
>
> (b) A county may terminate its obligation to provide benefits under this section upon providing the Administrative Director of the Courts and the impacted judges with 180 days' written notice. The termination shall not be effective as to any judge during his or her current term while that judge continues to serve as a judge in that court or, at the election of the county, when that judge leaves office. The county is also authorized to elect to provide benefits for all judges in the county.

GC section 77212(a) states, in part:

> The State of California, the counties of California, and the trial courts of California recognize that a unique and interdependent relationship has evolved between the courts and the counties over a sustained period of time. While it is the intent of this act to transfer all fiscal responsibility for the support of the trial courts from the counties to the State of California, it is imperative that the activities of the state, the counties, and the trial courts be maintained in a manner that ensures that services to the people of California not be disrupted. Therefore, to this end, during the 1997–98 fiscal year, commencing on July 1, 1997, counties shall continue to provide and courts shall continue to use, county services provided to the trial courts on July 1, 1997, including, but not limited to: auditor/controller services, coordination of telephone services, data-processing and information technology services, procurement, human resources services, affirmative action services, treasurer/tax collector services, county counsel services, facilities management, and legal representation. . . .

GC section 77212(d)(1) states:

> If a trial court desires to receive or continue to receive a specific service from a county . . . the presiding judge of that court and the county or city and county shall enter into a contract for that service. The contract shall identify the scope of service, method of service delivery, term of agreement, anticipated service outcomes, and the cost of the service. The court and the county or city and county shall cooperate in developing and implementing the contract.

FINDING 3— 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 reviewed three payment claims for court interpreters. We found that the trial court did not maintain contracts with the vendors providing the services.

Trial court staff members indicated that a contract for this type of service was not required prior to July 2021. The JCC's instructions for interpreter services became effective in July of 2021. Trial court representatives stated that the trial court has since implemented interpreter agreements to comply with the directive.

Section III.A, "Written Agreement," of the JCC's "Payment Policies for Independent Contractor Interpreters" (effective July 1, 2021) states:

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

The *Judicial Branch Contracting Manual* (revised effective October 1, 2020) contains two provisions that are relevant to a trial court's contracting for such 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") clarify that the [*Judicial Branch*] *Contracting Manual* does not address procurement and contracting for contracts that are "unique to the judicial branch," not subject to Judicial Branch Contract Law, or not subject to the *Contracting Manual*. Contracts between a court and a court interpreter who provides services as an independent contractor are not addressed in the *Contracting Manual*.

Butte County Superior Court (July 1, 2020, through June 30, 2021)

Audit Results

Our audit found that the trial 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 trial court's accounting system for the fiscal year in which they were due; expenditures that were not reported correctly in the trial court's accounting system; deficiencies in maintaining documentation to support revenue and expenditure transactions; and an inappropriate time sheet approval.

Amount of error (displayed by absolute value): $3,130

The trial court agreed with the findings.

FINDING 1— Unadjusted revenues

During our review of revenue transactions, we identified two entries with unadjusted prior-year revenues recorded in the trial court's current-year (FY 2020-21) operating account. The trial 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 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.

We noted revenue accrual-related adjustment errors affecting GL Account Number 831010 (General Fund – AB2695 Service of Process):

- The trial court received a $2,865 reimbursement, but accrued $3,830 in the prior year. The $965 excess should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment).
- The trial court received a $4,095 reimbursement that it did not accrue in the prior year. This reimbursement amount should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment).

The exceptions noted above resulted in a net overstatement of $3,130 in reported program revenue for the FY 2020-21 operating accounts. We tested only a small sample of all revenue transactions. Other unadjusted entries may exist that were not noted during testing.

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 trial 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 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 error

During our review of expenditure transactions, we identified a payment entry for a claimed court-appointed attorney cost that was improperly applied to an expenditure account. The supporting invoice (claim sheet) was coded to apportion 30% (or $4,207) to GL Account Number 938801 (Dependency Counsel, Child) and 70% (or $9,816) to GL Account Number 938802 (Dependency Counsel, Parent). However, the trial court applied the entire amount to GL Account Number 938801 (Dependency Counsel, Child). Trial court representatives stated that the posting error was an oversight.

Because the two accounts are combined for quarterly financial reporting as Contracted Services expenditures, the error has no effect on the trial court's published financial statements. This type of error is likely to have greater significance for the trial court in preparing and monitoring its budget and spending plans.

Item 1 of Policy Number FIN 8.01, section 6.3.5, "Account Coding," of the JCC's FIN Manual states:

> It is important that all expenditures are recorded in the appropriate accounts. To ensure that transactions are recorded correctly, account codes shall be entered on the purchase requisitions that initiate transactions and be included in the resulting procurement documents. Invoice transactions that are not supported by procurement documents (travel expense claims, check requests, etc.) must have the account code noted on the document requesting payment.

FINDING 3—
Internal control deficiency – Missing documentation

When testing the trial court's revenue and expenditure transactions, we verified documentation that substantiated the accounting data entered into the general ledger. The trial court was unable to provide supporting records for the following two revenue entries and one expenditure entry:

- GL Account Number 832010, TCTF MOU Reimbursement – Butte expansion TCTF portion.
- GL Account Number 832012, TCTF Court Appointed Counsel – attorney cost reimbursement.
- GL Account Number 938802, Dependency Counsel – vendor legal service.

Item 1 of Policy Number FIN 2.01, section 6.3 "Accounting System," of the JCC's FIN Manual states:

> The trial court shall utilize the Phoenix Financial System to ensure the efficient, organized, and accurate reporting of all transactions. The court is responsible for assuring that the transactions recorded in the Phoenix Financial System are supported by documentation and evidential matter that can withstand internal or external financial audits.

FINDING 4—
Internal control deficiency – Timesheet approval and separation of duties

During our testing of the trial court's payroll accounting, we verified the earnings, deductions, and timesheet approvals for five employees processed in two separate pay periods. We noted that one employee's timesheet had been processed without the required supervisory approval and accounting review.

In one of the two pay periods reviewed, we noted a missing supervisory approval and a missing payroll accountant review in a timesheet report for one of the five employees. The trial court's time reporting procedure requires both a supervisory approval and a payroll accountant review to close and process the pay period records. Supervisory approvals and payroll accountant reviews are recorded with a date and time stamp on each employee timesheet in the trial court's electronic payroll system.

Policy Number FIN 1.03, section 6.3.3, item 5, "Proper Authorization and Documentation," of the JCC's 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
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> iii. Transactions conform to the terms of the authorizations.

Contra Costa County Superior Court (July 1, 2020, through June 30, 2021)

Audit Results

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

Specifically, we found a prior-year reimbursement that the trial court did not re-accrue and an unaccrued prior-year revenue for which the trial court did not adjust its revenue account.

Amount of error (displayed by absolute value): $231,988

The trial court agreed with the findings.

FINDING—
Unaccrued and unadjusted prior-year revenues

During our review of revenue transactions, we identified two accrual-related accounting errors for prior-year activities affecting the trial court's current-year (FY 2020-21) operating accounts. In one instance, the trial court did not re-accrue a reimbursement for a FY 2018-19 receivable of state funds that remained outstanding at the end of FY 2019-20. In the other instance, the trial court did not adjust its revenue account for an unaccrued prior-year (FY 2019-20) revenue that was received during the current 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 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.

We noted revenue accrual-related adjustment errors affecting the following accounts:

- GL Account Number 831010 (General Fund – AB2695 Service of Process)

  The trial court reported a reimbursement receivable of $13,840 at the end of the prior year which lapsed in the current year without collection. The prior year accrual was reversed in the trial court's opening general ledger account balance, creating a deficit of $13,840 in the account balance. According to trial court representatives, the JCC confirmed that the trial court would be reimbursed for the outstanding amount. The receivable should have been re-accrued in the current year to offset the reversal.

- GL Account Number 832012 (TCTF Court Appointed Counsel)

  The trial court received a $218,148 distribution of revenue for the prior year that it did not accrue. This reimbursement amount should have been reclassified to GL Account Number 899910 (Prior Year Revenue Adjustment). This error resulted in the current-year program revenue account being overstated by $218,148. There is no effect to the trial court's total reported revenues because GL Account Number 899910 (Prior Year Revenue Adjustment) is reported separately from other revenues in the Statement of Revenue, Expenditures and Fund Balances.

The two exceptions noted above resulted in a net understatement of $13,840 in reported program revenue for the trial court's FY 2020-21 operating accounts. The tested transactions represent only a small sample of all trial court transactions. Other unaccrued and unadjusted entries may exist that were not detected during the audit testing.

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 trial 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 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.

Kings County Superior Court (July 1, 2020, through June 30, 2021)

Audit Results

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

Specifically, we found inconsistent application of access controls for the trial court's accounting system, a missing vendor contract, and approvals for vendor payment and contracting in excess of authorized delegation levels.

Amount of error: $0

The trial court agreed with the findings.

FINDING 1—
Internal control deficiency – Inconsistent application of access controls

During our review of electronic access controls over the trial court's accounting system, we found that the trial court did not use the JCC-prescribed access request form to create, modify, and delete accounting system user accounts. The form standardizes access privileges across the court system.

For our audit, we requested the access request forms for two trial court employees with employment changes. The trial court provided email records between it and JCC accounting system security administrators documenting how the trial court and the JCC coordinated the access changes for the employees. Based on the trial court's responses to our inquiries, it used alternative documentation for these access changes because staff members were not aware of the JCC access request form.

The trial courts are bound by JCC internal policies and an organizational structure designed to protect information assets. This centralized function helps trial courts to secure system data records and safeguard information and resources.

The JCC is responsible for administering system security. This responsibility includes educating the trial courts on security procedures, enforcing authorized system security practices consistent with JCC policy applicable to all trial courts, and minimizing vulnerabilities to sensitive information assets.

Policy Number FIN 1.03, section 6.3.3, "Internal Controls," of the JCC's FIN Manual (11th edition, June 2020) states, in part:

> 1. In implementing appropriate controls, courts must incorporate internal control concepts in establishing policies and procedures that help ensure that management directives are carried out. Control activities can be categorized as the establishment, preparation, completion, or performance of the following . . .
>
>   d. Safeguarding—Limiting access to and controlling the use of assets and records are ways to safeguard those assets and records. . . .
>
> 2. General computer and application controls are sometimes used to provide an automated and systematic way to address one or more of the above control activities. When this occurs, the general computer and application control must adhere to the policies and procedures outlined in this manual.

An effective system of internal controls includes various control activities to help mitigate significant risks.

FINDING 2—
Internal control deficiency – Vendor contract not executed

During our testing of the trial court's Contracted Services expenditure accounts, we requested supporting documentation for charges and service agreements for a sample of selected vendor transactions. We selected five transactions for court-appointed juvenile dependency legal services provided by the County of Kings (vendor) and found that they were not supported by a contract or other written agreement between the trial court and the vendor.

The trial court provided us with vendor invoices detailing the cases and billed legal costs to substantiate recorded charges. In reply to our request for contracts, the trial court confirmed that it did not have a contract or agreement with the vendor in FY 2020-21 prior to receiving services.

The trial court indicated that it began working on the contract in FY 2020-21, after the vendor provided services, and that the contract was executed for the following year, FY 2021-22. The trial court provided us with a copy of the executed contract; its terms were not retroactive or post-dated for FY 2020-21, and it became effective for FY 2021-22 on July 1, 2021. We noted that the contract does not specify billing rates; however, other elements of the contract appear consistent with JCC policy.

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

Policy Number FIN 7.01, section 3.0, "Policy Statement," of the 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 6.5, "Contract Execution," of the FIN Manual states:

> 1. Trial court contractual agreements must only be executed by authorized court employees acting within the scope and authorization level (dollar amount) of their official duties.
> 2. The trial court should not allow any contractor to begin work without a fully executed (signed by both parties) contract. In addition, the contractor should provide all applicable insurance and bonding documentation to the court before beginning work.
> 3. The trial court's files must contain an *original or electronic* (refer to Policy No. FIN 2.01, section 6.4[2]), *fully executed copy of every contract* it enters into, including any amendments.
> 4. Contract files must be retained according to the requirements established in Policy No. FIN 12.01 Record Retention.

Section 9.1.A, "Payment Fundamentals," of the Judicial Branch Contracting Manual (revised effective October 1, 2020) 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 [that] the goods/services were satisfactorily received and/or performed; and
> - An accurate, properly submitted Vendor invoice.

FINDING 3— Internal control deficiency – Delegation of Authority for Court Executive Officer

During our testing of expenditure transactions, we found two vendor agreements and 15 vendor payments approved by the Court Executive Officer for amounts that exceeded the approval limits in the trial court's authorized Delegation of Authority. The trial court was not able to provide documentation showing that the Presiding Judge reviewed or approved the agreements and payments.

For transactions occurring during the audit period, the trial court provided a Delegation of Authority, signed by the Presiding Judge, effective January 1, 2018, and an updated Delegation of Authority, effective January 1, 2020. The Delegation was updated for personnel changes only; dollar limits were not changed.

The Delegation of Authority is required by CRC rule 10.603(c)(6)(D), which establishes authorization limits for procurement, contract, expenditure, and allocation of funds and is signed by the Presiding Judge. Amounts above $50,000 must be approved by the Presiding Judge. Amounts between $15,000 and $50,000 may be approved by the Court Executive Officer with review by and initials of the Presiding Judge. Amounts between $10,001 and $24,999 may be approved by the Court Executive Officer with review only by the Presiding Judge. Amounts of up to $10,000 may be approved solely by the Court Executive Officer.

The two vendor contracts that exceeded the Court Executive Officer's approval limit were for $184,236 and $1,186,071.

The following table lists, by vendor, the individual transactions that exceeded the Court Executive Officer's approval limit:

Transaction	Vendor A	Vendor B	Vendor C	Vendor D	Vendor E
1	$ 34,268	$ 49,729	$ 125,512	$ 27,484	$ 10,815
2	33,178	46,252	114,154	25,252	
3	32,145		114,100	21,869	
4			100,674	16,970	
5				15,654	
Total	$ 99,591	$ 95,981	$ 454,441	$ 107,229	$ 10,815

Vendor identities are not disclosed.

The two vendor agreements and 15 vendor payments identified in this finding represent valid purchases; they have no monetary impact on account entries and no effect on the financial statements. However, missing contracts and agreements, and improper or unauthorized payments, may expose the trial court and the JCC to risks of inadequate vendor performance, monetary loss, and liabilities.

CRC rule 10.603(c)(6)(D) (revised October 1, 2021) provides that presiding judges must:

> Approve procurements, contracts, expenditures, and the allocation of funds in a manner that promotes the implementation of state and local budget priorities and that ensures equal access to justice and the ability

> of the court to carry out its functions effectively. In a court with an executive officer, the presiding judge may delegate these duties to the court executive officer, but the presiding judge must ensure that the court executive officer performs such delegated duties consistent with the court's established budget.

CRC rule 10.603(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), 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. The presiding judge remains responsible for all duties listed in this rule even if he or she has delegated particular tasks to someone else.

Item 3 of Policy Number FIN 8.01, section 6.2.1, "Routing of Vendor Invoices," of the FIN Manual states, "The court executive officer or an authorized representative must approve all invoices for payment."

Policy Number FIN 8.01, section 6.2.3, "Payment Authorization," of the FIN Manual states

1. The trial court shall establish and maintain an authorization matrix that lists employees who are permitted to commit court resources and approve invoices for payment.
2. The authorization matrix shall list the dollar limits and scope of authority of each authorized employee. For example, only certain court officials will be allowed to approve transactions such as the acquisition of fixed assets, hiring of consultants, etc. The authorization matrix should indicate such conditions.
3. The authorization matrix shall be updated on an annual basis or as required by changes in personnel.
4. Copies of the authorization matrix shall be provided to the trial court accounts payable department and to the accounts payable department of the outside accounting service provider.

Lake County Superior Court (July 1, 2020, through June 30, 2021)

Audit Results

Our audit found that revenues, expenditures, and fund balances reported by the trial court complied with governing statutes, rules, regulations, and Judicial Branch policies; were recorded accurately in accounting records; and were maintained in accordance with appropriate fund accounting principles.

Amount of error: $0

The trial court agreed with the findings.

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