

SUPERIOR COURT OF CALIFORNIA, COUNTY OF SANTA CRUZ

Final Audit Report

**FISCAL COMPLIANCE AUDIT OF REVENUES,
EXPENDITURES, AND FUND BALANCES**

July 1, 2021, through June 30, 2022



MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

May 2026



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MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

May 1, 2026

Ms. Sasha Morgan, Court Executive Officer
Superior Court of California, County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Dear Ms. Morgan:

The State Controller's Office audited the Superior Court of California, County of Santa Cruz (the Court) to determine whether the Court complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances under the Court's administration and control that we determined were material and significant. The audit period was July 1, 2021, through June 30, 2022.

We 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 an internal control deficiency that warrant the attention of management. Specifically, we found accounting errors that included unadjusted prior-year revenues for shared county fee remittances that were received and incorrectly recorded in current-year revenue accounts. We also found overstated revenue as a result of accounting errors in the recording of employee voluntary deductions from payroll for parking fees and corresponding vendor payments.

This report is for your information and use. The Court's responses to the findings are incorporated into this final report. The Court generally agreed with our audit results, except for Finding 2, with which it indicated a partial agreement regarding the account that should be

Ms. Sasha Morgan

May 1, 2026

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used for recording employee voluntary deductions. This final audit report includes the Court's response as an attachment.

If you have any questions regarding this report, please contact Joel James, Chief, Financial Audits Bureau, by telephone at 916-323-1573 or email at jjames@sco.ca.gov. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA

Chief, Division of Audits

Copy: James Owen, Director of Finance

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SUMMARY

The State Controller’s Office (SCO) audited the Superior Court of California, County of Santa Cruz (the Court) to determine whether the Court complied with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances under the Court’s administration and control that we determined were material and significant. The audit period was July 1, 2021, through June 30, 2022.

We found that the Court complied with governing statutes, rules, regulations, and policies for revenues, expenditures, and fund balances. However, we identified accounting errors and an internal control deficiency that warrant the attention of management. Specifically, we found accounting errors that included unadjusted prior year revenues for shared county fee remittances that were received and incorrectly recorded in current-year revenue accounts. We also found overstated revenue as a result of accounting errors in the recording of employee voluntary deductions from payroll for parking fees and corresponding vendor payments.

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 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, much of which are codified in Title 8 of Government Code, “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 FIN 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. Government Code (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 fiscal year (FY) 2021-22, the Court reported revenues of \$18,246,422. The Court receives the majority of its revenue from state financing sources. The TCTF provided 82.5 percent of the Court's revenue. During the audit period, the Court incurred expenditures of \$17,736,421. Payroll-related expenditures (salaries and benefits) comprised 89.1 percent of total expenditures. The Court employed 144 staff members to serve Santa Cruz County's population of approximately 271,300 residents.

Funds under the Court's control include a General Fund, a Special Revenue (Grant and Non-Grant) Fund (hereinafter referred to as the "Special Revenue Fund"), and a Capital Projects Fund. The General Fund had revenue and expenditure accounts in excess of four percent of total revenues and expenditures, and were considered material and significant for testing.

AUDIT AUTHORITY

We conducted this audit 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 Interagency Agreement Number 91393, dated November 1, 2023, between the SCO and the JCC, and with GC section 77206(h), which requires the SCO to audit 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 audit was to determine whether the Court complied with governing statutes, rules, and regulations relating to the revenues, expenditures, and fund balances for any funds under the Court's administration and control that we determined were material and significant during the period of July 1, 2021, through June 30, 2022. 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.

To accomplish our objective, we performed the following procedures.

General Procedures

- We reviewed the *Judicial Council Governance Policies* (November 2017), the FY 2021-22 Budget Act, the Manual of State Funds, Government Code, the California Rules of Court, the FIN Manual (11th Edition, June 2020), and internal policies and procedures to identify compliance requirements applicable to trial court revenues, expenditures, and fund balances.

Internal Control Procedures

- We reviewed the Court's current policies and procedures, organization, and website, and interviewed the Court's personnel to gain an understanding of the internal control environment for governance, operations, and fiscal management.
- We interviewed the Court's 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 and implemented by performing walk-throughs of revenue and expenditure transactions.
- We reviewed the Court's documentation and financial records supporting the recorded revenues, expenditures, and fund balances.
- We assessed the reliability of financial data by (1) interviewing agency officials knowledgeable about the Court's 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 achieving our objective.

- We selected revenue and expenditure ledger transactions to test the operating effectiveness of internal controls. Using non-statistical sampling, we selected 21 revenue items and 35 expenditure items to evaluate key internal controls of transactions recorded in significant and material operating funds and the related fund accounts. For expenditure testing, our sample consisted of 25 non-payroll transactions and the payroll records of 10 employees. We expanded testing on accounts with transactions containing errors to determine the impact of the identified errors. Errors were not projected to the intended (total) population.

Revenue Testing Procedures

We designed our revenue testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded into the accounting system for financial reporting. Our procedures included tests of recorded transaction details and of accounting internal controls.

- We tested revenue transactions and account balances in the General Fund and the Special Revenue Fund to determine whether revenue accounting was consistent with Government Code, properly supported by documentation, and recorded correctly in the accounting system.
- We selected all material financial statement accounts that exceeded four percent of total revenues, and determined that the TCTF and the Court Interpreter accounts were material for testing. We tested accounts through sampling and analytical procedures.
- Although they are not considered material, we selected various revenue accounts for additional testing. These accounts included:
 - Memorandum of Understanding (MOU) Reimbursements;
 - Other Miscellaneous;
 - Assembly Bill 1058;

- Other Judicial Council Grants;
 - Local Fees;
 - County Program – Restricted; and
 - Reimbursement Other revenues.
- We tested \$17,590,710 of \$18,246,422, or 96.4 percent of total revenues.

We found two account recording errors that included \$22,979 in unadjusted prior-year revenues for several Local Fees and County Program – Restricted revenue accounts, and \$8,228 in overstated Other Miscellaneous revenue for misposted voluntary employee parking fee deductions from payroll. Schedule 1—Summary of Revenues and Revenue Test Results presents, by account, revenues and related amounts tested.

Expenditure Testing Procedures

We designed our expenditure testing to verify the Court's adherence to prescribed accounting control procedures, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our procedures included tests of recorded transaction details and of accounting internal controls.

- We tested expenditure transactions and account balances in the General Fund, the Special Revenue Fund, and the Capital Projects Fund to determine whether expenditures were incurred pursuant to Government Code, consistent with the funds' purposes, properly authorized, adequately supported, and accurately recorded in the accounting records.
- We tested all material expenditure accounts that exceeded four percent of total expenditures. Payroll-related accounts were material and consisted of the Salaries – Permanent and the Staff Benefits accounts.
- Although not material, we selected the Facility Operations Account, the Contracted Services Account, and the Information Technology Account for additional testing.

- For material payroll-related accounts, we selected two monthly bi-weekly pay periods in August 2021 and May 2022 for review. We reconciled the salary and benefit expenditures shown on the payroll registers to the General Ledger (GL) and examined supporting records of benefit charges. We then selected ten of 144 employees from the payroll registers and verified that:
 - Employee timesheets included supervisory approval;
 - Regular earnings and supplemental pay were supported by salary schedules and personnel forms;
 - Employer retirement contributions and payroll taxes were entered into the GL accurately; and
 - Health insurance premiums shown on the payroll register agreed to the employees' benefit election forms.
- For selected non-payroll accounts, we selected samples to test key internal control activities and the accuracy of recorded transactions, and traced expenditures recorded in the GL to supporting documentation. We considered transactions in excess of \$37,000 as individually significant. Our test included the following expenditures:
 - Facility Operations – We tested two of 124 transactions. One transaction was considered individually significant.
 - Contracted Services – We tested 13 of 1,432 transactions. None of the recorded transactions were considered individually significant.
 - Information Technology – We tested 10 of 250 transactions. Three transactions were considered individually significant.
- We tested \$470,534 of \$17,736,421, or 2.7 percent of total expenditures.

We found no errors in the recording of transactions. Schedule 2—Summary of Expenditures and Expenditure Test Results presents, by account, expenditures and related amounts tested.

Fund Balance Testing Procedures

We designed our fund balance testing to verify the Court's adherence to prescribed accounting processes, and to verify that transactions were correctly recorded in the accounting system for financial reporting. Our procedures included review of fund classifications and accounting internal controls.

- We judgmentally selected the General Fund, the Special Revenue Fund, and the Capital Projects Fund because these funds had either revenue and expenditure accounts or balances that were significant for testing.
- We tested revenue and expenditure transactions in these funds to determine whether transactions were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see Schedules 1 and 2).
- We verified the accuracy of individual fund balances in the Court's financial supporting documentation.
- We recalculated sampled funds to ensure that fund balances as of June 30, 2021, were accurate and in compliance with applicable criteria.

We found that the fund balance for the General Fund was overstated by \$8,228. However, we found that fund balances for the other tested funds were properly reported. Schedule 3—Summary of Fund Balances and Fund Balance Test Results presents, by fund, total balances and changes in fund balances.

We limited our review of the Court's internal controls to gaining an understanding of the significant internal controls within the context of the audit objective. We did not audit the Court's financial statements.

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

CONCLUSION

We 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 an internal control deficiency that warrant the attention of management. Specifically, we found accounting errors that included unadjusted prior-year revenues for shared county fee remittances that were received and incorrectly recorded in current-year revenue accounts. We also found overstated revenue as a result of accounting errors in the recording of employee voluntary deductions from payroll for parking fees and corresponding vendor payments.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

We have not previously conducted an audit of the Court's revenues, expenditures, and fund balances.

VIEWS OF RESPONSIBLE OFFICIALS

We issued a draft audit report on June 30, 2025. The Court's representative responded by letter dated June 26, 2025. The Court generally agreed with the audit results, except for Finding 2, with which it indicated a partial agreement regarding the accounts that should be used for recording employee voluntary deductions. This final audit report includes the Court's response as an attachment.

RESTRICTED USE

This report is solely intended for the information and use of the Court, the JCC, and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties.

This restriction is not intended to limit the distribution of this report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

Kimberly A. Tarvin, CPA

Chief, Division of Audits

May 1, 2026

SCHEDULE 1—SUMMARY OF REVENUES AND REVENUE TEST RESULTS

July 1, 2021, through June 30, 2022

The following notes provide context for Schedule 1:

- Accounting errors are described in Finding 1—Unadjusted Prior-Year Revenues, and Finding 2—Misposted Revenue Entry.
- The Improvement and Modernization Fund and Court Interpreter revenue accounts are material to the Court.
- Internal control testing is planned for material accounts and included with additionally selected accounts.
- Revenue accounts selected for additional testing included: MOU Reimbursements, Other Miscellaneous (State Financing Sources), County Program – Restricted, Reimbursement Other, Other Miscellaneous (Other Financing Sources) revenue accounts.
- Minor calculation differences are due to rounding.

Revenue Accounts	Revenues Reported	Percentage of Total Revenues	Amount Tested	Percentage Tested	Error Amount
<u>State Financing Sources</u>					
Trial Court Trust Fund	\$15,051,803	82.6%	\$15,051,803	100.0%	\$0
Improvement and Modernization Fund	22,825	0.1%	0	0.0%	0
Court Interpreter	987,125	5.4%	987,125	100.0%	0
<u>MOU</u>					
Reimbursements	330,606	1.8%	262,700	79.5%	0
Other Miscellaneous	<u>209,288</u>	1.1%	<u>209,288</u>	100.0%	<u>0</u>

Revenue Accounts	Revenues Reported	Percentage of Total Revenues	Amount Tested	Percentage Tested	Error Amount
Subtotal – State financing sources	<u>16,601,647</u>		<u>16,510,915</u>		<u>0</u>
<u>Grants</u>					
AB 1058 Commissioner/Facilitator	316,062	1.7%	316,062	100.0%	0
Other Judicial Council Grants	627,588	3.4%	627,588	100.0%	0
Non-Judicial Council Grants	<u>0</u>	0.0%	<u>0</u>	0.0%	<u>0</u>
Subtotal – Grants	<u>943,651</u>		<u>943,651</u>		<u>0</u>
<u>Other Financing Sources</u>					
Interest Income	17,418	0.1%	0	0.0%	0
Local Fees	173,846	1.0%	22,011	12.7%	22,011
Enhanced Collections	88,485	0.5%	0	0.0%	0
County Program – Restricted	45,055	0.2%	45,055	100%	968
Reimbursement Other	321,237	1.8%	69,079	21.5%	0
Prior Year Revenue	51,265	0.3%	0	0.0%	-22,979
Other Miscellaneous	<u>3,818</u>	0.0%	<u>0</u>	0.0%	<u>8,228</u>
Subtotal – Other financing sources	<u>701,125</u>		<u>136,144</u>		<u>8,228</u>
Total revenues	<u><u>\$18,246,422</u></u>		<u><u>\$17,590,710</u></u>		<u><u>\$8,228</u></u>

SCHEDULE 2—SUMMARY OF EXPENDITURES AND EXPENDITURE TEST RESULTS

July 1, 2021, through June 30, 2022

The following notes provide context for Schedule 2:

- Accounts that were considered material to the Court include: Salaries – Permanent and Staff Benefits.
- Testing of internal control is performed for all material accounts and is also performed with accounts additionally selected for review that are not considered material.
- Expenditure accounts selected for additional testing included: Facility Operations, Contracted Services, and Information Technology.
- Minor calculation differences are due to rounding.

Expenditure Accounts	Expenditures Reported	Percentage of Total Expenditures	Amount Tested	Percentage Tested	Error Amount
<u>Personal Services</u>					
Salaries – Permanent	\$9,457,815	53.3%	\$37,898	0.4%	\$0
Temp Help	5,657	0.0%	0	0.0%	0
Overtime	5,595	0.0%	0	0.0%	0
Staff Benefits	6,333,766	35.7%	15,712	0.2%	0
Subtotal – Personal services	15,802,833		53,610		0
<u>Operating Expenses and Equipment</u>					
General Expense	265,184	1.5%	0	0.0%	0
Printing	80,095	0.5%	0	0.0%	0

Expenditure Accounts	Expenditures Reported	Percentage of Total Expenditures	Amount Tested	Percentage Tested	Error Amount
Telecommunications	18,423	0.1%	0	0.0%	0
Postage	14,470	0.1%	0	0.0%	0
Insurance	8,784	0.0%	0	0.0%	0
In-State Travel	8,415	0.0%	0	0.0%	0
Training	12,586	0.1%	0	0.0%	0
Security Services	300	0.0%	0	0.0%	0
Facility Operations	419,104	2.4%	98,600	23.5%	0
Contracted Services	509,865	2.9%	21,190	4.2%	0
Consulting and Professional Services	12,855	0.1%	0	0.0%	0
Information Technology	568,346	3.2%	297,134	52.3%	0
Major Equipment	60,281	0.3%	0	0.0%	0
Other Items of Expense	1,170	0.0%	0	0.0%	0
Subtotal – Operating expenses and equipment	<u>1,979,877</u>		<u>416,924</u>		<u>0</u>
<u>Special Items of Expense</u>					
Jury Costs	65,421	0.4%	0	0.0%	0
Judgements, Settlements and Claims	11,483	0.1%	0	0.0%	0
Internal Cost Recovery	0	0.0%	0	0.0%	0
Prior Year Expense Adjustment	-123,192	0.7%	0	0.0%	0
Subtotal – Special items of expense	<u>-46,288</u>		<u>0</u>		<u>0</u>
Total expenditures	<u>\$17,736,421</u>		<u>\$470,534</u>		<u>\$0</u>

SCHEDULE 3—SUMMARY OF FUND BALANCES AND FUND BALANCE

TEST RESULTS

July 1, 2021, through June 30, 2022

The following notes provide context for Schedule 3:

- The accounting errors are described in Finding 1—Unadjusted Prior-Year Revenues, and Finding 2—Misposted Revenue Entry.
- Minor calculation differences are due to rounding.

Balance	General Fund	Special Revenue Fund Non-Grant	Special Revenue Fund Grant	Capital Projects Fund	Total
Beginning balance	\$631,477	\$608,088	\$0	\$0	\$1,239,565
Revenues	16,971,376	397,752	877,294	0	18,246,422
Expenditures	-16,450,569	-311,251	-899,601	-75,000	-17,736,421
Transfers in	0	116,675	22,307	75,000	138,982
Transfers out	-213,982	0	0	0	-213,982
Ending balance	<u>938,302</u>	<u>811,263</u>	<u>0</u>	<u>0</u>	<u>1,749,566</u>
Errors Noted					
Revenues	8,228	0	0	0	8,228
Expenditures	0	0	0	0	0
Total errors noted	<u>\$8,228</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$8,228</u>

FINDINGS AND RECOMMENDATIONS

Finding 1—Unadjusted Prior-Year Revenues

During our review of revenue transactions, we found that the Court had not adjusted its revenue accounts for unaccrued prior-year revenues that were received during FY 2021-22.

The County of Santa Cruz (the county) remitted a total of \$22,979 to the Court for its statutory share of certain earned local revenues. Prior-year (FY 2020-21) revenues were recorded in the Court’s various local revenue accounts for FY 2021-22. The Court recorded the revenues in the following GL accounts:

GL Account Number	GL Description	Amount
821170	Penal Code section 1463.22a Insurance Conviction	\$2,910
821181	Installment Accounts	11,325
821182	Penal Code section 1205d Stay Fee	7
821183	Vehicle Code section 40508.6 DMV History/Priors	555
821191	General Code section 26840.3 Marriage License Conciliatory	7,214
841010	Small Claims Advisory	968
	Total deposit and recorded revenue	22,979
899910	Prior Year Revenue Adjustments	-22,979
Net revenue		\$0

The county remits a share of local revenue to the Court on a quarterly basis. The remittance for this deposit represented the previous fiscal year’s third-quarter payment to the Court for October through December 2020. The Court received and deposited the county’s remittance in the following fiscal year, in September of 2021.

Unaccrued prior year revenues, when received in a subsequent fiscal year, should be reclassified to the Prior Year Revenue Adjustment account, GL Account Number 899910. However, revenue should be accrued in the fiscal year earned. The Court indicated that it

should have been posted to the adjustment account. Overall, the errors are offsetting and reported total revenue is not affected.

The JCC's uniform Trial Court Chart of Accounts establishes adjustment accounts in the Trial Court GL. 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 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.

Policy Number FIN 5.01, section 6.8.1, “Year-End Revenue and Reimbursement Accruals,” of the JCC’s FIN Manual states:

During year-end closing, the court must:

1. Review all revenue accounts, including entitlements and local revenues, and accrue revenues that may not have been received, but which are both measurable and available;
2. Review all reimbursement accounts including state, local, and federal grants; MOUs with state and local entities; and other reimbursable items and accrue reimbursements for expenditures incurred, but not invoiced as of June 30; and
3. Reverse all revenue and reimbursement accruals in the first month of the new fiscal year.

Recommendation

We recommend that the Court review its accounting procedures to ensure that account adjustments are recorded to reclassify unaccrued transactions and accrual differences from the prior year, as described in the JCC’s accounting guidance. All unaccrued deposits for the prior year should be either entered in, or reclassified to, the adjustment account. Differences

between amounts accrued in any year and amounts received in a subsequent year should be entered in the adjustment accounts as a true-up for accuracy.

The Court should also ensure that all year-end accruals are recorded in the GL. Estimates should be used to accrue unbilled transactions remaining at year-end. Adjusting (true-up) entries may be necessary for differences in the following new fiscal year accounting period.

Court's Response

The Court agrees that prior year revenue should be recorded to a prior year revenue account and any known revenues due should be accrued in the appropriate year.

Finding 2—Misposted Revenue Entry

We found that \$8,228 in employee payments for parking fees was inappropriately recorded as revenue. Parking fees are deducted from employees' earnings in each bi-monthly payroll period at the Watsonville Court location and used for payment to the City of Watsonville (the city) for parking. The JCC processes payments for parking costs under a contract with the city and processes the Court's reimbursement to JCC for the payment made to the city. Accounting entries are recorded by the JCC. The voluntary employee payroll deduction appears mischaracterized as a source of revenue.

In response to our inquiry, the Court indicated that the JCC mistakenly reclassified the reimbursed parking deductions to Miscellaneous Reimbursements and should have posted the deductions as an offset to expenses. Additionally, as noted in our review of entries to the GL, payment to the city does not correspond with monthly employee deductions. This transaction represents the full year of parking charges and does not appear regularly periodic. As a result, the Court's General Fund revenues and fund balance are both overstated by \$8,228 in its FY 2021-22 financial reporting.

Policy Number FIN 5.01, section 3.0, “Policy Statement,” of the JCC’s FIN Manual states:

It is the policy of the Judicial Council of California that all trial courts shall comply with the basic principles of accounting and reporting that are applicable to government units. The trial courts shall execute and account for financial transactions in conformity with Generally Accepted Accounting Principles (GAAP) and legal requirements.

Policy Number FIN 5.01, section 6.3.3, “Abatements,” of the JCC’s FIN Manual states:

1. All abatements reduce the original expenditure general ledger account and are recorded in the period received. The following must be accounted for as abatements:
 - a. Refunds of overpayments of salaries;
 - b. Rebates from vendors or from third parties for defective merchandise, return of merchandise, return of empty containers, promotional purposes (e.g., incentives to purchase products or services), or other reasons;
 - c. Employee jury duty or witness fees;
 - d. Employee payments for private use of state resources such as personal long-distance telephone charges; and
 - e. Other abatements approved by the Judicial Council of California for situations not listed above.

Recommendation

We recommend that the Court coordinate with the JCC to ensure that parking deductions and payments are processed monthly and posted only after the Court reviews and approves the entries. We further recommend reviewing policies with the JCC to permit the Court to administer its parking contract and payments with the city.

Court's Response

The Court partially agrees with this finding. The [JCC] employee's entry credited the revenue account causing an overstatement of revenue which the Court agrees was an incorrect entry. The Court did not make this entry. An entry to "offset the expense" would not have had the desired outcome of recording the parking expense. The Court believes the entry should have credited the liability account, "due to state," and not the revenue account to properly address the situation.

SCO Comment

Our finding and recommendation remain unchanged.

As discussed in the finding, we inquired into this accounting error during fieldwork. The Court indicated that a JCC employee had mistakenly reclassified the reimbursed parking deductions to Miscellaneous Reimbursements and should have posted the deductions as an offset to expenses. Regardless of accounts, a measure of appropriate internal control would be for the Court to ensure that it reviews and approves JCC ledger entries before they are fully recorded to mitigate the risk of error.

May 2026

ATTACHMENT—SUPERIOR COURT’S COMMENTS REGARDING AUDIT RESULTS

Superior Court of California

COUNTY OF SANTA CRUZ
Justice With Dignity and Respect

SASHA MORGAN
Court Executive Officer



701 Ocean Street, Room 110
Santa Cruz, CA 95060
Phone: (831) 420-2200
Fax: (831) 420-2260

June 26, 2025

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

Dear Mr. James,

This letter is in response to the State Controller’s Office audit of the Superior Court of California, County of Santa Cruz (the Court) for the period of July 1, 2021, through June 30, 2022.

My comments on the audit findings are as follows:

Finding 1 The Court agrees that prior year revenue should be recorded to a prior year revenue account and any known revenues due should be accrued in the appropriate year.

Finding 2 The Court partially agrees with this finding. The Judicial Council employee’s entry credited the revenue account causing an overstatement of revenue which the Court agrees was an incorrect entry. The Court did not make this entry. An entry to “offset the expense” would not have had the desired outcome of recording the parking expense. The Court believes the entry should have credited the liability account, “due to state”, and not the revenue account to properly address the situation.

Thank you.

Sincerely,

A handwritten signature in blue ink that reads "Sasha Morgan".

SASHA MORGAN
Court Executive Officer
Superior Court of California, County of Santa Cruz