

# **SUPERIOR COURT OF CALIFORNIA, COUNTY OF BUTTE**

Audit Report

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

*July 1, 2020, through June 30, 2021*



**MALIA M. COHEN**  
California State Controller

June 2023



**MALIA M. COHEN**  
**California State Controller**

June 21, 2023

Sharif Elmallah, Court Executive Officer  
Superior Court of California, County of Butte  
One Court Street  
Oroville, CA 95965

Dear Mr. Elmallah:

The State Controller's Office audited the Superior Court of California, County of Butte (Court) to determine whether the Court complied with governing statutes, rules, regulations, and policies 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. The audit period was July 1, 2020, through June 30, 2021.

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

This report is for your information and use. The Court's responses to the findings are incorporated into this final report. The Court agreed with our observations and provided a Corrective Action Plan to address the fiscal control weaknesses and recommendations. We appreciate the Court's willingness to implement corrective actions.

If you have any questions, please contact Joel James, Chief, Financial Audits Bureau, by telephone at (916) 323-1573.

Sincerely,

*Original signed by*

**KIMBERLY TARVIN, CPA**  
Chief, Division of Audits

KT/ac

cc: Jarrod Orr, Deputy Court Executive Officer  
Superior Court of California, County of Butte  
Darleen Sowers, Fiscal Services Director  
Superior Court of California, County of Butte  
Millicent Tidwell, Acting Administrative Director  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Butte (Court) to determine whether the Court complied with governing statutes, rules, regulations, and policies 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. The audit period was July 1, 2020, through June 30, 2021.

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

## 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. Trial courts are also required to comply with various other state laws, rules, and regulations, many of which are codified in Government Code (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 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 monies 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) 2020-21, the Court reported revenues of \$15,047,453. The Court receives the majority of its revenue from state financing sources. The TCTF provided 77.6% of the Court's revenue. During the audit period, the Court incurred expenditures of \$15,205,724. Payroll-related expenditures (salaries and benefits) comprised 75.2% of total expenditures. The Court employed 110 staff members to serve Butte County's population of approximately 208,951 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, and a Special Revenue Grant Fund. The General Fund, the Special Revenue Non-Grant Fund, and the Special Revenue Grant Fund had revenue and expenditure accounts in excess of 4% of total revenues and expenditures, and were considered material and significant for testing.

We performed the audit at the request of the JCC. Audit authority is provided by Interagency Agreement Number 78846, dated June 14, 2022, between the SCO and the JCC, and by GC section 77206(h)(2).

**Objective, Scope,  
and Methodology**

The objective of our audit was to evaluate whether the Court complied with governing statutes, rules, regulations, and policies 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.

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, 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 FY 2020-21 Budget Act, the Manual of State Funds, Government Code, the California Rules of Court, the JCC's 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 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 Court's 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 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 12 revenue items and 18 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. For expenditure testing, our sample consisted of 18 non-payroll transactions and the payroll records of five employees. We expanded testing on accounts with transactions containing errors to determine the impact of 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 in 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, the Special Revenue Non-Grant Fund, and the Special Revenue Grant 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 4% of total revenues, and determined that the TCTF and MOU [memorandum of understanding] Reimbursement accounts were material for testing. We expanded our testing to include the Court Interpreter and Other Judicial Council Grants accounts. We tested accounts through combined sampling and analytical procedures.
- We tested \$13,343,395 of \$15,047,453 or 88.7% of total revenues.

We identified errors in account balances that resulted from unadjusted differences between revenues earned and accrued in the prior year and remittances received in the current year. The errors involved the omission of adjustments to properly classify current operating results, but had no effect on the Court's net reported revenue total. We also noted that two of the selected revenue samples were missing documentation.

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

### 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 Non-Grant Fund, and the Special Revenue Grant 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 4% of total expenditures. Material accounts included payroll-related (Salary – Permanent; Staff Benefits) accounts and a non-payroll (Contracted Services) account.



- For payroll-related accounts, we selected two bi-weekly pay periods occurring in November 2020 and February 2021 to review. We reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger, and examined supporting documentation for benefit charges. We further selected five of 110 employees from the payroll registers and verified that:
  - Employee time sheets included supervisory approval;
  - Regular earnings and supplemental pay were supported by salary schedules and personnel action forms;
  - Employer retirement contributions and payroll taxes were entered in the general ledger accurately; and
  - Health insurance premiums shown on the payroll register agreed to the employees' benefit election forms.
- To test material non-payroll accounts, we:
  - Selected a sample of 18 out of 1,923 Contracted Services transactions to test key internal control activities and the accuracy of recorded transactions; and
  - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$99,324 of \$15,205,724 or 0.7% of total expenditures.

We noted one improperly recorded expenditure transaction, missing agreements or similar documentation for three Contracted Services sample transactions, and an improperly approved and processed time sheet.

The details of our findings are provided in the Findings and Recommendations section. 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 control procedures, 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 Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund, as these funds had revenue and expenditure accounts with significant balances.
- 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 and constraints 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 fund balances for the tested funds were properly reported. Schedule 3—Summary of Fund Balances and Fund Balance Test Results, presents, by fund, total balances and changes in fund balances.

We limited our review of the court’s internal controls to gaining an understanding of the internal controls that are significant to 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **Conclusion**

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 accounting system for the fiscal year in which they were due; expenditures that were not reported correctly in the Court’s accounting system; and deficiencies in maintaining documentation to support revenue and expenditure transactions; and an inappropriate time sheet approval. These issues are described in the Findings and Recommendations section.

## **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 February 1, 2023. The Court’s representative responded by letter dated February 10, 2023. The Court agreed with the audit results. 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 Superior Court of California, County of Butte; 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 the final report, which is a matter of public record and will be available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

June 21, 2023

**Schedule 1—  
Summary of Revenues and Revenue Test Results  
July 1, 2020, through June 30, 2021**

Revenue Accounts	Revenues Reported <sup>1</sup>		Revenues Tested <sup>1</sup>		Error Amount <sup>2</sup>
	Total	Percentage	Amount	Percentage	
<b>State Financing Sources</b>					
Trial Court Trust Fund <sup>3</sup>	\$ 11,682,346	77.6%	\$ 11,682,346	100.0%	\$ -
Improvement and Modernization Fund	28,642	0.2%	-	0.0%	-
Judges' Compensation	78,514	0.5%	-	0.0%	-
Court Interpreter	253,654	1.7%	253,654	100.0%	-
Civil Coordinator Reimbursement	-	0.0%	-	0.0%	-
MOU Reimbursements <sup>3</sup>	1,190,122	7.9%	1,174,127	98.7%	3,130
Other Miscellaneous	124,077	0.8%	-	0.0%	-
Subtotal	<u>13,357,355</u>		<u>13,110,127</u>		<u>3,130</u>
<b>Grants</b>					
AB 1058 Commissioner/Facilitator	255,891	1.7%	-	0.0%	-
Other Judicial Council Grants	448,135	3.0%	233,269	52.1%	-
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	<u>704,027</u>		<u>233,269</u>		<u>-</u>
<b>Other Financing Sources</b>					
Interest Income	22,009	0.1%	-	0.0%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	-	0.0%	-	0.0%	-
Local Fees	6,142	0.0%	-	0.0%	-
Non-Fee Revenues	-	0.0%	-	0.0%	-
Enhanced Collections	514,433	3.4%	-	0.0%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	5,592	0.0%	-	0.0%	(3,130)
County Program - Restricted	34,518	0.2%	-	0.0%	-
Reimbursement Other	341,483	2.3%	-	0.0%	-
Sale of Fixed Assets	-	0.0%	-	0.0%	-
Other Miscellaneous	61,895	0.4%	-	0.0%	-
Subtotal	<u>986,071</u>		<u>-</u>		<u>(3,130)</u>
Total Revenues	<u>\$ 15,047,453</u>	100.0%	<u>\$ 13,343,395</u>	88.7%	<u>\$ -</u>

<sup>1</sup> Differences due to rounding.

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

<sup>3</sup> Material account.

**Schedule 2—  
Summary of Expenditures and Expenditure Test Results  
July 1, 2020, through June 30, 2021**

Expenditure Accounts	Expenditures Reported <sup>1</sup>		Expenditures Tested <sup>1</sup>		Error Amount
	Total	Percentage	Amount	Percentage	
<b>Payroll</b>					
Salaries - Permanent <sup>2</sup>	\$ 7,216,459	47.5%	\$ 21,292	0.3%	\$ -
Temporary Help	86,078	0.6%	-	0.0%	-
Overtime	23,178	0.2%	33	0.1%	-
Staff Benefits <sup>2</sup>	4,105,701	27.0%	7,240	0.2%	-
Subtotal	<u>11,431,417</u>		<u>28,564</u>		<u>-</u>
<b>Operating Expenses and Equipment</b>					
General Expense	530,970	3.5%	-	0.0%	-
Printing	19,080	0.1%	-	0.0%	-
Telecommunications	112,978	0.7%	-	0.0%	-
Postage	78,959	0.5%	-	0.0%	-
Insurance	9,332	0.1%	-	0.0%	-
In-State Travel	27,485	0.2%	-	0.0%	-
Out-of-State Travel	-	0.0%	-	0.0%	-
Training	25,052	0.2%	-	0.0%	-
Security Services	481,445	3.2%	-	0.0%	-
Facility Operations	422,947	2.8%	-	0.0%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services <sup>2</sup>	1,587,024	10.4%	70,760	4.5%	-
Consulting and Professional Services	16,809	0.1%	-	0.0%	-
Information Technology	347,116	2.3%	-	0.0%	-
Major Equipment	19,025	0.1%	-	0.0%	-
Other Items of Expense	20	0.0%	-	0.0%	-
Subtotal	<u>3,678,241</u>		<u>70,760</u>		<u>-</u>
<b>Special Items of Expense</b>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	52,888	0.3%	-	0.0%	-
Judgments, Settlements and Claims	5,017	0.0%	-	0.0%	-
Debt Service	-	0.0%	-	0.0%	-
Other	-	0.0%	-	0.0%	-
Capital Costs	-	0.0%	-	0.0%	-
Internal Cost Recovery	-	0.0%	-	0.0%	-
Prior Year Expense Adjustment	38,161	0.3%	-	0.0%	-
Subtotal	<u>96,066</u>		<u>-</u>		<u>-</u>
Total Expenditures	<u>\$ 15,205,724</u>	100.0%	<u>\$ 99,324</u>	0.7%	<u>\$ -</u>

<sup>1</sup> Differences due to rounding.

<sup>2</sup> Material account.

**Schedule 3—**  
**Summary of Fund Balances and Fund Balance Test Results**  
**July 1, 2020, through June 30, 2021**

<b>Balance</b>	<b>General Fund <sup>1</sup></b>	<b>Non-Grant Special Revenue Fund <sup>1</sup></b>	<b>Grant Special Revenue Fund</b>	<b>Total <sup>1</sup></b>
Beginning Balance	\$ 747,869	\$ 358,545	\$ -	\$ 1,106,413
Revenues	13,544,834	1,502,620	-	15,047,453
Expenditures	(13,676,964)	(1,528,760)	-	(15,205,724)
Tranfers In	-	40,286	-	40,286
Transfers Out	(40,286)	-	-	(40,286)
Ending Balance	<u>\$ 575,452</u>	<u>\$ 372,691</u>	<u>\$ -</u>	<u>\$ 948,143</u>
<b>Errors Noted</b>				
Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<sup>1</sup> Differences due to rounding.

# Findings and Recommendations

## **FINDING 1— Unadjusted revenues**

During our review of revenue transactions, we identified two entries with unadjusted prior-year revenues recorded in the Court's current-year (FY 2020-21) operating account. 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 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, general ledger (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 Court received a \$2,865 as 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 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 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 (11<sup>th</sup> 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.

### 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. Differences between amounts actually received in the current year and the amounts accrued in the prior year should be entered in the adjustment accounts. All unaccrued deposits for the prior year should be either entered in, or reclassified to, the adjustment account; and
- Ensure that all year-end accruals are recorded in the general ledger. Estimates should be used to accrue unbilled transactions remaining at year-end. Adjusting (true-up) entries may be necessary for differences in the following accounting period in the new fiscal year.

### **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 Court applied the entire amount to GL Account Number 938801 (Dependency Counsel, Child). The Court 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 Court’s published financial statements. This type of error is likely to have greater significance for the 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.

Recommendation

We recommend that the Court:

- Continue enforcing its policies and procedures to ensure that transactions are correctly recorded; and
- Ensure that the approver for the entry of an invoice that has been coded for posting and the approver who posts an approved invoice are both verifying that entries in the ledger system match the supporting documentation and coded invoices.

**FINDING 3—  
Internal control  
deficiency –  
Missing  
documentation**

When testing the Court’s revenue and expenditure transactions, we verified documentation that substantiated the accounting data entered into the general ledger. The 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 – Jonathan Lusher legal service.

Item 1 of Policy No. 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.

Item 1 of Policy No. FIN 2.01, section 6.4, “Accounting Records,” of the JCC’s FIN Manual states, in part:

Each trial court shall document its financial activities and maintain sufficient accounting records to:

- a. Ensure that all transactions are properly and accurately recorded.
- b. Provide sufficient evidence and justification for all transactions.
- c. Maintain accountability for trial court assets and resources.
- d. Document accountability of trial court employees who execute and process financial transactions.
- e. Permit preparation of accurate, informative, and reliable reports that conform to applicable criteria.
- f. Support management during internal reviews and external audits.

#### Recommendation

We recommend that the Court implement policies and procedures to ensure that it preserves the accounting and financial records that support transactions reflected in the Court’s accounting system.

#### **FINDING 4— Internal control deficiency – time sheet approval and separation of duty**

During our testing of the Court’s payroll accounting, we verified the earnings, deductions, and time sheet 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 the accounting review.

In one of the two pay periods reviewed, we noted a missing supervisory approval and a missing payroll accountant review in a time sheet report for one of the five employees. The 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 time sheet in the 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
  - iii. Transactions conform to the terms of the authorizations.

Recommendation

We recommend that the Court:

- Review its administrative controls for the payroll system to ensure that limits are configured to prevent unapproved transactions from being processed;
- Maintain appropriate separation of duties between the business unit submitting time sheet records and the accounting unit responsible for processing payroll; and
- Enforce its existing policy of supervisory time sheet approvals.

**Attachment—  
Superior Court's Comments  
Regarding the Audit Results**

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### SUPERIOR COURT OF CALIFORNIA, COUNTY OF BUTTE

February 10, 2023

STEPHEN E. BENSON, JUDGE  
MICHAEL P. CANDELA, JUDGE  
CORIE J. CARAWAY, JUDGE  
MICHAEL R. DEEMS, JUDGE  
PHILIP H. HEITHECKER, JUDGE  
CLARE KETHLEY, JUDGE  
KRISTEN A. LUCENA, JUDGE  
KIMBERLY MERRIFIELD, JUDGE  
TAMARA L. MOSBARGER, JUDGE  
JESUS A. RODRIGUEZ, JUDGE

Joel James  
Chief, Financial Audits Bureau  
California State Controller – Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250

KURT W. WORLEY,  
COURT COMMISSIONER

Re: Response to Superior Court of California, County of Butte – Audit of Revenues, Expenditures, and Fund Balances

VIRGINIA L. GINGERY,  
COURT COMMISSIONER

Dear Mr. James,

SHARI ELMALLAH,  
COURT EXECUTIVE OFFICER

On February 01, 2023, the Superior Court of California, County of Butte received the draft audit report for the audit of validity of recorded revenues, expenditures, and fund balances for the period of July 01, 2020 through June 30, 2021. The Court’s response to the audit findings are as noted below:

JARROD ORR,  
ASSISTANT COURT EXECUTIVE OFFICER

#### Finding 1: Unadjusted Revenues

The Court agrees with the finding. The Court will revise its accounting procedures to incorporate a thorough review of accounts receivable activity due at fiscal year-end to appropriately book accruals and/or prepare for receivable payments that may arrive after the closing of the fiscal year.

PLEASE REPLY TO:

Butte County Courthouse  
One Court Street  
Oroville, CA 95965  
Tel: (530) 532-7013  
Fax: (530) 538-8567

#### Finding 2: Account Entry Error

The Court agrees with the finding and has shared this information internally with fiscal staff tasked with the input and review of invoice information entered into the court’s financial system to ensure transactions are correctly coded.

North Butte County Courthouse  
1775 Concord Avenue  
Chico, CA 95928  
Tel: (530) 532-7013  
Fax: (530) 538-8567

#### Finding 3: Internal Control Deficiency – Missing Documentation

The Court agrees with the finding in relation to the items for which documentation was missing. The Court is reviewing accounting record policies and will update them as needed to ensure that documentation is consistently filed and retained in accordance with the JCC’s FIN Manual, Item 1 of Policy No. FIN 2.01, section 6.3 and 6.4.

#### Finding 4: Internal Control Deficiency – Time Sheet Approval and Separation of Duty

Audit of Revenues, Expenditures, and Fund Balances  
Superior Court of California, County of Butte  
Page 2

The Court agrees with the finding. The Court is currently reviewing administrative controls within the payroll administration software to better enforce timecard approval restrictions in accordance with the JCC's FIN Manual, Policy No. FIN 1.03, section 6.3.3, item 5. Upon completion of the review of the administrative controls, the Court anticipates updating its payroll process protocols.

We would like to thank the State Controller's Office and the auditors assigned to this effort for their professionalism during the course of the audit and appreciate the opportunity to respond to the draft audit report.

Sincerely,

/s/ Sharif Elmallah  
Court Executive Officer

cc: Honorable Kimberly Merrifield, Presiding Judge, Superior Court of Butte County  
Jarrod Orr, Assistant Court Executive Officer, Superior Court of Butte County  
Darleen Sowers, Fiscal Director, Superior Court of Butte County  
Dawn Tomita, Audit Manager, Judicial Council of California

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

**[www.sco.ca.gov](http://www.sco.ca.gov)**