

SUPERIOR COURT OF AMADOR COUNTY

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

September 2018



BETTY T. YEE
California State Controller

September 14, 2018

Robert Klotz, Court Executive Officer
Superior Court of Amador County
500 Argonaut Lane
Jackson, CA 95642

Dear Mr. Klotz:

The State Controller's Office audited the Superior Court of Amador County's (court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control. The audit period was July 1, 2016, through June 30, 2017.

Our audit found no instances of non-compliance. However, we found weaknesses in the court's administrative and internal accounting control system; these weaknesses are described in the Findings and Recommendations section of our report.

The court agreed with our findings and recommendations, and stated that it would initiate procedures 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 Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Dawn Harmon, Administrative Services Manager
Superior Court of Amador County
Martin Hoshino, Administrative Director
Judicial Council of California
Millicent Tidwell, Chief Deputy Director
Judicial Council of California
John Wordlaw, Chief Administrative Officer
Judicial Council of California
Zlatko Theodorovic, Chief Financial Officer and Director of Finance
Judicial Council of California
Grant Parks, Principal Manager
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Judicial Council of California
Daniel Alvarez, Secretary of the Senate
Office of the Secretary of State
E. Dotson Wilson, Chief Clerk
California State Assembly, Office of the Chief Clerk
Amy Leach, Journal Clerk
California State Assembly, Office of the Chief Clerk
Diane F. Boyer-Vine, Legislative Counsel
Office of Legislative Counsel
Mark Tollefson, Assistant Program Budget Manager
California Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of Amador County's (court) compliance with governing statutes, rules, and regulations to assess the validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control. The audit period was July 1, 2016, through June 30, 2017.

The court complied with governing statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances. However, we found the following weaknesses in the court's administrative and internal accounting control system:

- Inadequate internal controls over the cash-handling process;
- Inappropriate processing of payments received through mail; and
- Non-compliance with procurement policies and procedures.

Background

The court operates from one location in Jackson, California. The court employs two judges and approximately 30 court staff members to fulfill its operational and administrative activities. The court incurred almost \$3 million in expenditures for the period of July 1, 2016, through June 30, 2017.

The court controls the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund. All three funds had revenues and expenditures in excess of 4% of total revenues and expenditures; therefore, all three funds are considered material and significant.

Per the Judicial Council's *Trial Court Financial Policies and Procedures Manual*, trial courts are subject to rules and policies established by the Judicial Council of California to promote efficiency and uniformity within a system of trial court management. However, each trial court has the authority and responsibility for managing its own operations. All employees are expected to fulfill at least the minimum requirements of their positions and to conduct themselves with honesty, integrity, and professionalism. In addition, they must operate within the specific levels of authority that may be established by the trial court for their positions. California Rules of Court (CRC) and the *Trial Court Financial Policies and Procedures Manual*, established under Government Code (GC) sections 77000 through 77013 and adopted under CRC 10.804, specify guidelines and requirements for court governance.

GC sections 13400 through 13407 require state agencies to establish and maintain internal controls, including proper segregation of duties and an effective system of internal review.

Objective, Scope, and Methodology

We performed the audit at the request of the Judicial Council of California. The authority is provided by Interagency Agreement No. 1034558, dated September 5, 2017, between the SCO and the Judicial Council of California.

The objective of our audit was to determine whether the court 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 its administration, jurisdiction, and control.

The audit period was July 1, 2016, through June 30, 2017.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with authorizing GC sections 77000 through 77013 requiring that they be properly supported by documentation and recorded accurately in the accounting records;
- Expenditures were properly authorized, adequately supported, accurately recorded in the accounting records, and incurred pursuant to authorizing GC sections 77000 through 77013 requiring consistency with the fund's purpose; 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:

General Procedures

- Reviewed the court's Governance Policies, the Budget Act, the Manual of State Funds, GC sections 13400 through 13407 and 77000 through 77013, CRC, the *Trial Court Financial Policies and Procedures Manual*, and relevant internal policies and procedures to identify compliance requirements applicable to trial courts for revenues, expenditures, and fund balances.

Internal Controls

- Reviewed current policies and procedures, organization charts, and the court's website, and interviewed court staff to gain an understanding of the internal control environment;
- Assessed whether key internal controls, such as reviews and approvals, reconciliations, and segregation of duties are properly designed, implemented, and operating effectively by performing walk-throughs of revenue and expenditure transactions;
- Evaluated the court's formal written internal policies and procedures;
- Completed internal control questionnaires by interviewing key staff, and observed the business operations for the purpose of evaluating cash-handling and internal accounting controls; and

- Reviewed the court’s documentation and financial records supporting the validity of recorded revenues, expenditures, and fund balances.

We performed the following tests of transactions to ensure adherence with prescribed procedures and to validate and test the effectiveness of controls:

Revenue Substantive Testing

- Tested revenue transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund by selecting non-statistical samples (see the table below) to determine whether revenues were consistent with authorizing Government Code sections, properly supported by documentation, and recorded accurately in the accounting records;
- Tested individual revenue accounts that exceeded \$123,000, totaling \$1,187,997 out of \$3,076,627, or 38.6% of the total revenues (see the table below for percentages of revenue accounts sampled); and
- Judgmentally sampled a minimum of 10% of the selected revenue accounts, consisting of large-dollar-amount transactions within each account sampled, and traced to supporting documentation.

We did not identify any errors in the samples.

The following table identifies total revenues by account and related amounts tested:

Revenue Accounts	Total Revenues	Percentage Total	Amount Tested	Percentage Tested
<u>State Financing Sources</u>				
Trial Court Trust Fund	\$ 2,277,173	74.0%	\$ 1,015,962	44.6%
MOU Reimbursements	168,154	5.5%	81,690	48.6%
	2,445,327		1,097,652	
<u>Grants</u>				
AB 1058 Commissioner/Facilitator	170,489	5.5%	51,823	30.4%
<u>Other Financing Sources</u>				
Enhanced Collections	171,178	5.6%	38,522	22.5%
Other Accounts ¹	289,633	9.4%	-	
Total Revenues	\$ 3,076,627	100.0%	\$ 1,187,997	38.6%

¹ Other Accounts were not selected for testing.

Expenditure Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether expenditures were incurred pursuant to authorizing Government Code sections consistent with the fund’s purpose, properly authorized, adequately supported, and accurately recorded in the accounting records; and

- Tested individual expenditure accounts that exceeded \$116,000, totaling \$107,945 of \$2,904,430, or 3.7% of total expenditures (see the table below for percentages of expenditure accounts sampled).

We did not identify any errors in the sample.

The following table identifies total expenditures by account and related amounts tested:

Expenditure Accounts	Total Expenditures	Percentage Total	Amount Tested	Percentage Tested
<u>Personal Services¹</u>				
Salaries – Permanent Employees	\$ 1,605,482	55.3%	\$ 51,057	3.2%
Staff Benefits	666,238	22.9%	7,991	1.2%
	<u>2,271,720</u>		<u>59,048</u>	
<u>Operating Expenditures and Equipment</u>				
General Expense	116,107	4.0%	13,868	11.9%
Contracted Services	322,659	11.1%	35,029	10.9%
	<u>438,766</u>		<u>48,897</u>	
Other Accounts ²	193,944	6.7%	-	
Total Expenditures	<u>\$ 2,904,430</u>	<u>100.0%</u>	<u>\$ 107,945</u>	<u>3.7%</u>

¹ Personal Services were tested using a different methodology (see details below).

² Other Accounts were not selected for testing.

- For Salaries – Permanent Employees, we selected three employees out of 30 from a list provided by the court for three pay periods in October 2016 and three pay periods in April 2017, and reconciled the amounts to supporting documentation to ensure that:
 - Employee time included supervisory approval;
 - Overtime was authorized;
 - Regular earnings were supported by the Salary Resolution; and
 - Regular earnings tied back to the general ledger;
- For Staff Benefits, we selected the same three employees out of 30 from a list provided by the court for three pay periods in October 2016 and three pay periods in April 2017, and reconciled the amounts to supporting documentation and the general ledger; and
- For Operating Expenditures and Equipment, we judgmentally sampled a minimum of 10% of the selected expenditure accounts consisting of large dollar amounts, and traced the amounts to supporting documentation.

Fund Balance Substantive Testing

- Tested expenditure transactions of the General Fund, the Non-Grant Special Revenue Fund, and the Grant Special Revenue Fund to determine whether transactions were reported based on the

Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles (see the following table for transaction summary by fund);

- Verified the accuracy of individual fund balances in the court’s financial supporting documentation; and
- Recalculated sampled funds to ensure that fund balances as of June 30, 2017, were accurate and in compliance with applicable criteria.

We did not identify any errors in the sample.

The following table identifies changes in fund balances:

	General Fund	Non-Grant Special Revenue Fund	Grant Special Revenue Fund	Total
Beginning Balance	\$ 28,020	\$ 750	\$ -	\$ 28,770
Revenues	2,694,352	186,114	196,160	3,076,626
Expenditures	(2,526,088)	(182,182)	(196,160)	(2,904,430)
Transfers In	115,724	-	-	115,724
Transfers Out	(115,724)	-	-	(115,724)
Ending Balance	<u>\$ 196,284</u>	<u>\$ 4,682</u>	<u>\$ -</u>	<u>\$ 200,966</u>
Percent Change	<u>600.5%</u>	<u>524.3%</u>	<u>0.0%</u>	

We conducted this performance audit under the authority of GC section 77206(h). We conducted the 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.

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.

Conclusion

Our audit found that the court complied with statutes, rules, and regulations relating to the validity of recorded revenues, expenditures, and fund balances for the period of July 1, 2016, through June 30, 2017. However, we found the following weaknesses in the administrative and internal accounting control system, which are described in the Findings and Recommendations section of this report:

- Inadequate internal controls over the cash-handling process;
- Inappropriate processing of payments received through mail; and
- Non-compliance with procurement policies and procedures.

**Follow-up on
Prior Audit
Findings**

This is the first audit performed at the court pursuant to GC section 77206(h); however, the court was audited by the Judicial Council of California's Internal Audit Services in April 2011. We found that the court has satisfactorily resolved the findings noted in that prior audit report.

**Views of
Responsible
Officials**

We provided the court with a preliminary final audit report on August 20, 2018. Robert (Rob) Klotz, Court Executive Officer, responded by letter dated August 30, 2018 (Attachment), agreeing with the audit results. This final audit report includes the court's response.

Restricted Use

This final report is solely intended for the information and use of the Superior Court of Amador County, the Judicial Council of California, 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

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

September 14, 2018

Findings and Recommendations

FINDING 1— Inadequate internal controls over the cash-handling process

During our review of the court’s internal controls, we found that it does not have adequate internal controls over the cash-handling process. Cash collection is one of the major components of reported revenues; therefore, inadequate cash controls could affect the accuracy of reported revenues.

We identified deficiencies in the following areas:

- Cashiers are not adequately safeguarding cash collections. We noted several instances in which cashiers left keys unsecured on their desks or in keyholes while not at their stations, or when leaving the room altogether;
- Cashiers do not verify the identities of customers writing personal checks or using credit cards when payment is made at the public window;
- Only one employee opens the mail, instead of a two-person team. In addition, the mail-opening responsibilities are not regularly rotated among the staff members;
- Payment receipts are not recorded in a log when payment is received through the mail; and
- Safes are not secured to the wall and remain open throughout the day.

GC section 13401(a) (5) states, “Systems of internal control are necessarily dynamic and must be routinely monitored, continuously evaluated, and, where necessary, improved.”

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.1.1) states, “During the day, collections shall be secured in a lockable cash drawer or bag.” In addition, section 6.3.2 states, “Trial Courts must require cashiers to secure their assigned cash funds in individually locked drawers or bags.”

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.3.5) states:

The court may accept credit card or debit card payments in person, over the telephone, over the Internet, or by mail. At a minimum, the trial court must verify that the credit card or debit card is current (the card expiration date must not have passed) for payments made in person.

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.3.4) states, “When a check is accepted at the public window, cashiers must require the customer provide an acceptable form of picture identification, such as a driver’s license or passport.”

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.4) states that a two-person team should be assigned to open the mail, the two-person team should be rotated regularly, mail should only be processed when both team members are present, and the court should maintain a payment receipt log.

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.1.1) states, “Safes that are moveable should be attached to the courthouse using a method that would prevent easy removal.”

The development and implementation of internal control procedures will improve the integrity of financial reporting and help court staff more effectively comply with governing statutes and procedures.

Recommendation

We recommend that the court:

- Comply with the policies and procedures outlined in the *Trial Court Financial Policies and Procedures Manual*, and
- Strengthen its control over the cash-handing process to ensure the proper reporting of revenues in the financial statements and the safeguarding of cash assets.

Court’s Response

The Court will initiate procedures to comply with recommendations.

FINDING 2— Inappropriate processing of payments received through mail

During our review of the court’s internal controls, we found that the court does not process payments received through the mail on the day that payments are received. During an interview with a senior clerk, the clerk stated that payments are not always processed the same day they are received; instead, they are left in a cash bag to be processed on the next business day.

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.4) states:

Checks and money orders received through the mail should be processed (i.e., including immediately restrictive endorsement for deposit in the court bank account, entered into the court’s receipting system and deposited to the appropriate bank account) on the day they are received. Any exceptions are to be brought to the attention of a supervisor, placed under dual control, and processed as soon as practicable. Money received through the mail will be deposited and entered in the court’s cashiering system and/or automated case management system on the day received.

The *Trial Court Financial Policies and Procedures Manual* (section 10.02, subsection 6.4) states, “Any payment that cannot be processed will be attached to the Payments Receipt Log sheet and appropriately safeguarded in the safe until the payment can be processed the next business day.”

The inappropriate processing of mailed payments has a pervasive effect on the payment posting process; it impairs the effectiveness of controls by rendering their design ineffective or keeping them from operating effectively. Following correct trial court accounting practices will help to ensure the accurate reporting of all transactions.

Recommendation

We recommend that the court:

- Comply with the policies and procedures outlined in the *Trial Court Financial Policies and Procedures Manual*, and
- Process all payments by mail on the day that they are received, and bring any exceptions to the attention of the supervisor for additional control.

Court's Response

The Court will initiate procedures to comply with recommendations.

**FINDING 3—
Non-compliance with
procurement policies
and procedures**

During our testing of procurement transactions, we found that the court staff did not comply with procurement policies and procedures to ensure effective management controls over the purchase order process.

We tested four procurement transactions initiated during the audit period. For two of the transactions tested, the court did not comply with procurement policies that require the court to obtain at least three bid offers. The court did not document any justification for sole-sourcing its procurement.

The *Trial Court Financial Policies and Procedures Manual* (section 6.01, subsection 6.5.3) states:

Procurements exceeding a value of \$5,000 but are less than \$24,999, should obtain at least three bids from qualified offers. If fewer than three offers are received, the court must justify the appropriateness and reasonableness. The names and address of the firms or individuals solicited for bids or proposals must be documented in the procurement file.

The *Trial Court Financial Policies and Procedures Manual* (section 6.01, subsection 6.5.4) states:

For all procurements that exceed a value of \$25,000, at least three written offers should be obtained. If three written offers are not obtained, the presiding judge or his or her designee must be consulted as to whether the procurement must proceed. An approval to proceed must be in writing.

The *Trial Court Financial Policies and Procedures Manual* (section 6.01, subsection 6.11.2) states:

Justification of the rationale for sole sources procurements should pre-date the actual procurement, must be documented thoroughly and carefully in the event an audit or investigation is performed during or after the procurement.

The procurement of necessary goods and services must be conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice. All procurement actions must be planned, implemented, and administered under clear and concise procurement guidelines.

Recommendation

We recommend that the court comply with the policies and procedures outlined in the *Trial Court Financial Policies and Procedures Manual* to ensure fairness, efficiency, and security in the purchase order process.

Court's Response

The Court will initiate procedures to comply with recommendations.

**Attachment—
Court's Response to Audit Findings**



**SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF AMADOR**

500 ARGONAUT LANE • JACKSON, CA 95642
(209) 257-2681

ROB KLOTZ, COURT EXECUTIVE OFFICER

August 30, 2018

Jeffrey V Brownfield, CPA
Chief, Division of Audits
Office of the Controller
State of California

RE: Amador Superior Court Audit for period July 1, 2016 through June 30, 2017

Dear Mr. Brownfield:

In response to Finding 1 – Inadequate internal controls over the cash-handling process.
The Court will initiate procedures to comply with recommendations.

In response to Finding 2 – Inappropriate processing of payments received through the mail. The Court will initiate procedures to comply with recommendations.

In response to Finding 3 – Non-compliance with procurement policies and procedures.
The Court will initiate procedures to comply with recommendations.

We appreciate the professionalism of Shadi Guinee, Auditor in the performance of this audit.

Sincerely,

A handwritten signature in black ink, appearing to be "Rob Klotz", written over the word "Sincerely".

Rob Klotz
CEO

J.S. Hermanson, Presiding Judge • Renee C. Day, Judge
• Rob Klotz, Court Executive Officer

**State Controller's Office
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