

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

Audit Report

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

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



**BETTY T. YEE**  
California State Controller

November 2022



**BETTY T. YEE**  
California State Controller

November 16, 2022

Margaret L. Smith, Court Executive Officer  
Superior Court of California, County of Calaveras  
400 Government Drive  
San Andreas, CA 95249

Dear Ms. Smith:

The State Controller's Office audited the Superior Court of California, County of Calaveras (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. 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 also identified accounting errors and internal control deficiencies that warrant the attention of management.

Specifically, we found revenues that were not reported correctly in the Court's financial statement accounts for the fiscal year in which they were earned. We also found errors in expenditures and fund balances reported in the Court's fourth-quarter Statement of Revenues, Expenditures and Changes in Fund Balances. We also noted a lack of signed vendor contracts.

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 accounting errors and fiscal control weaknesses and recommendations.

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: Pamela James, Administrative Services Manager  
Superior Court of California, County of Calaveras  
Martin Hoshino, Administrative Director  
Judicial Council of California  
Millicent Tidwell, Chief Deputy Director  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Calaveras (Court) to determine whether the revenues, expenditures, and fund balances under the administration, jurisdiction, and control of the Court complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records; and were maintained in accordance with fund accounting principles. 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 financial statement accounts for the fiscal year in which they were earned. We also found errors in expenditures and fund balances reported in the Court's fourth-quarter Statement of Revenues, Expenditures, and Changes in Fund Balances (Q4 Statement). In addition, we noted a lack of signed vendor contracts. These issues are described in the Findings and Recommendations section of this report.

## 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, much 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; and it 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.

All trial court 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 established by trial courts for their positions.

The JCC requires that trial courts prepare and submit Quarterly Financial Statements, Yearly Baseline Budgets, and Salary and Position Worksheets. Financial statement components are 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 \$3,623,327. The Court receives the majority of its revenue from state financing sources. The TCTF provided 73.6% of the Court's revenue. During the audit period, the Court incurred expenditures of \$3,581,681. Payroll-related expenditures (salaries and benefits) comprised 73.8% of total expenditures. The Court employed 26 staff members to serve Calaveras County's population of approximately 45,023 residents.

Funds under the Court's control include a General Fund, a Special Revenue Non-Grant Fund, a Special Revenue Grant Fund, and a Fiduciary 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 70343, dated October 26, 2021, between the SCO and the JCC, and by GC section 77206(h)(2).

## **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 validity of recorded revenues, expenditures, and fund balances of all material and significant funds under its administration, jurisdiction, and control.

Specifically, we conducted this audit to determine whether:

- Revenues were consistent with authorizing Government Code sections, properly supported by documentation, and recorded accurately in the accounting records;
- Expenditures were incurred pursuant to authorizing Government Code sections, 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 10 revenue items and 23 expenditure items to evaluate key internal controls of transactions recorded in significant operating funds and the related fund accounts. We expanded testing on accounts with transactions containing errors to determine the 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 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, 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 tested accounts through combined sampling and analytical procedures.
- We tested \$2,976,653 of \$3,623,327, or 82.2% 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.

The details of our findings are provided in the Findings and Recommendations section of this report. Schedule 1—Summary of Revenues and Revenue Test Results presents, by account, the revenue and test totals and the error amounts noted in the audit.

#### 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 into 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 (Salaries – Permanent; Staff Benefits) and non-payroll (Contracted Services; Consulting and Professional Services) accounts.
- To test payroll-related expenditure accounts, we selected two bi-weekly pay periods occurring in September 2020 and April 2021, and reconciled the salary and benefit expenditures shown on the payroll registers to the general ledger. We further selected five of 26 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 action forms;
- Employer retirement contributions and payroll taxes were entered into 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 expenditure accounts, we:
  - Selected a sample of 18 expenditure transactions to test key internal controls and the accuracy of recorded transactions;
  - Selected expenditure transactions that we considered individually significant (material), exceeding \$31,000; and
  - Traced expenditures recorded in the general ledger to supporting documents.
- We tested \$209,797 of \$3,581,681, or 5.9% of total expenditures.

We noted a lack of signed vendor contracts and, separately, we also noted adjustments to the Salaries – Permanent and the Staff Benefits expenditure accounts that were not included in the expenditures reported by the Court in its Q4 Statement.

The details of our findings are provided in the Findings and Recommendations section of this report. Schedule 2—Summary of Expenditures and Expenditure Test Results presents total expenditures by account, related amounts tested, and error amounts noted.

#### 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 into 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 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. However, we noted adjustments to the Salaries – Permanent and the Staff Benefits expenditure accounts that were not included in the expenditures

reported by the Court in its Q4 Statement. 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 under the authority of GC section 77206(h) and 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**

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

Specifically, we found revenues that were not reported correctly in the Court's financial statement accounts for the fiscal year in which they were earned. We also found errors in expenditures and fund balances reported in the Court's Q4 Statement. In addition, we noted a lack of signed vendor contracts.

## **Follow-up on Prior Audit Findings**

We have not previously conducted an audit of the Court's revenues, expenditures, and fund balances; therefore, there are no prior audit findings to address in this report.

## **Views of Responsible Officials**

We issued a draft audit report on August 29, 2022. The Court responded by letter dated September 28, 2022, agreeing 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 Calaveras; the JCC, and 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](http://www.sco.ca.gov).

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

November 16, 2022

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

Revenue Accounts	Revenues Reported		Revenues Tested		Error
	Total <sup>1</sup>	Percentage	Amount <sup>1</sup>	Percentage	Amount <sup>2</sup>
<b><u>State Financing Sources</u></b>					
Trial Court Trust Fund <sup>3,4</sup>	\$ 2,667,651	73.6%	\$ 2,667,651	100.0%	\$ -
Improvement and Modernization Fund <sup>4</sup>	(18,290)	-0.5%	(18,290)	100.0%	(24,004)
Judges' Compensation	-	0.0%	-	0.0%	-
Court Interpreter <sup>4</sup>	54,669	1.5%	54,669	100.0%	-
Civil Coordination Reimbursement	-	0.0%	-	0.0%	-
MOU Reimbursements <sup>3,4</sup>	640,807	17.7%	309,101	48.2%	113,056
Other Miscellaneous	50,506	1.4%	50,506	100.0%	-
Subtotal	<u>3,395,343</u>		<u>3,063,637</u>		<u>89,052</u>
<b><u>Grants</u></b>					
Assembly Bill 1058 Commissioner/Facilitator	142,158	3.9%	-	0.0%	-
Other Judicial Council Grants	(86,984)	-2.4%	(86,984)	100.0%	(87,614)
Non-Judicial Council Grants	-	0.0%	-	0.0%	-
Subtotal	<u>55,174</u>		<u>(86,984)</u>		<u>(87,614)</u>
<b><u>Other Financing Sources</u></b>					
Interest Income	7,016	0.2%	-	0.0%	-
Investment Income	-	0.0%	-	0.0%	-
Donations	-	0.0%	-	0.0%	-
Local Fees	8,384	0.2%	-	0.0%	-
Non-Fee Revenues	-	0.0%	-	0.0%	-
Enhanced Collections	127,535	3.5%	-	0.0%	-
Escheatment	-	0.0%	-	0.0%	-
Prior Year Revenue	21,186	0.6%	-	0.0%	(1,438)
County Program – Restricted	-	0.0%	-	0.0%	-
Reimbursement Other	-	0.0%	-	0.0%	-
Sale of Fixed Assets	-	0.0%	-	0.0%	-
Other Miscellaneous	8,690	0.2%	-	0.0%	-
Subtotal	<u>172,810</u>		<u>-</u>		<u>(1,438)</u>
Total Revenues	<u>\$ 3,623,327</u>	100.0%	<u>\$ 2,976,653</u>	82.2%	<u>\$ -</u>

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

<sup>2</sup> Tested account internal controls

<sup>3</sup> Revenues over/(under) stated; see Findings 1 and 2

<sup>4</sup> Material account

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

<u>Expenditure Accounts</u>	<u>Expenditures Reported</u>		<u>Expenditures Tested</u>		<u>Error</u>
	<u>Total</u> <sup>1</sup>	<u>Percentage</u>	<u>Amount</u> <sup>1</sup>	<u>Percentage</u>	<u>Amount</u> <sup>2</sup>
<u>Personal Services</u>					
Salaries – Permanent <sup>3,4</sup>	\$ 1,802,634	50.3%	\$ 32,258	1.8%	\$ 2,528
Temp Help	40,972	1.1%	-	0.0%	-
Overtime <sup>4</sup>	1,158	0.0%	29	2.5%	-
Staff Benefits <sup>3,4</sup>	798,552	22.3%	9,670	1.2%	(1,077)
Subtotal	<u>2,643,315</u>		<u>41,957</u>		<u>1,452</u>
<u>Operating Expenses and Equipment</u>					
General Expense	111,905	3.1%	-	0.0%	-
Printing	-	0.0%	-	0.0%	-
Telecommunications	15,889	0.4%	-	0.0%	-
Postage	15,741	0.4%	-	0.0%	-
Insurance	3,536	0.1%	-	0.0%	-
In-State Travel	131	0.0%	-	0.0%	-
Out-of-State Travel	-	0.0%	-	0.0%	-
Training	3,854	0.1%	-	0.0%	-
Security Services	972	0.0%	-	0.0%	-
Facility Operations	61,480	1.7%	-	0.0%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services <sup>3,4</sup>	315,872	8.8%	50,962	16.1%	-
Consulting and Professional Services <sup>3,4</sup>	204,755	5.7%	91,439	44.7%	-
Information Technology	136,057	3.8%	-	0.0%	-
Major Equipment <sup>4</sup>	57,757	1.6%	25,438	44.0%	-
Other Items of Expense	447	0.0%	-	0.0%	-
Subtotal	<u>928,395</u>		<u>167,839</u>		<u>-</u>
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	11,657	0.3%	-	0.0%	-
Judgements, Settlements and Claims	-	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	(235)	0.0%	-	0.0%	-
Subtotal	<u>11,422</u>		<u>-</u>		<u>-</u>
Total Expenditures	<u>\$ 3,583,132</u>	100.0%	<u>\$ 209,797</u>	5.9%	<u>\$ 1,452</u>

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

<sup>2</sup> Expenditures over/(under) stated; see Finding 3

<sup>3</sup> Material account

<sup>4</sup> Tested account internal controls

**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 <sup>1</sup></b>	<b>Fiduciary Fund</b>	<b>Total <sup>1</sup></b>
Beginning Balance	\$ 575,399	\$ 197,002	\$ -	\$ -	\$ 772,401
Revenues	3,121,939	358,599	142,788	-	3,623,326
Expenditures	(3,102,535)	(337,765)	(142,832)	-	(3,583,132)
Transfers In	-	-	44	-	44
Transfers Out	(44)	-	-	-	(44)
Ending Balance	<u>\$ 594,759</u>	<u>\$ 217,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 812,594</u>
Errors Noted <sup>2</sup>					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditure	1,452	-	-	-	1,452
Totals	<u>\$ 1,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,452</u>

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

<sup>2</sup> Expenditures over/(under) stated; see Finding 3.

# Findings and Recommendations

## **FINDING 1— Unadjusted revenues**

In our testing of revenue transactions, we noted an unadjusted entry in the Court's current-year (FY 2020-21) reimbursement accounts. The Court did not adjust its revenue accounts for differences between prior-year (FY2019-20) revenues that were received during the current year and the amounts that had been accrued in the prior year.

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

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

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

The JCC's uniform Trial Court Chart of Accounts establishes adjustment accounts in the trial court General Ledger. Revenues are reclassified by using GL Account Number 899910 (Prior Year Revenue Adjustment) to record adjustments of accrual-related accounting differences; and to record revenue that was earned and not accrued in the prior year, but received in the current year. Expenditures are reclassified in a similar way by using GL Account Number 999910 (Prior Year Expense Adjustment).

The Prior Year Adjustment accounts reclassify accounting information for financial and budgetary reporting, and isolate differences in prior-year accrued transactions to prevent them from being commingled with current year transactions and reported in current-year operating accounts. Failure to adjust accounts may lead to material financial misstatements.

The JCC's Administrative Division staff provides guidance to courts for using the Prior-Year Revenue Adjustment account in its annual *Year-End Close Training Manual—General Ledger*.

Section 7.1, "Automated Accrual Reversal Process," of the 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 implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, 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.

## **FINDING 2— Account entry error**

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

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

(Reimbursements Collected in Advance). The misclassified transfer resulted in an understatement of \$87,614 in reported revenue for the General Fund – MOU Reimbursements account and an overstatement of \$87,614 for the Other Judicial Council Grants account.

Policy Number FIN 5.02, section 3.0, “Policy Statement,” of the JCC’s FIN Manual states:

It is the policy of the trial court to establish an accounting system with a chart of accounts and general ledger that enables the court to record financial transactions with accuracy and consistency. All the trial courts use a single chart of accounts. This single set of accounts ensures that the financial position of all courts is reported consistently and clearly. The actual accounts each court utilizes may vary depending on the complexity of operations.

#### Recommendation

We recommend that the Court strengthen its controls to ensure the accuracy of account classifications when recording transactions in the general ledger. These procedures may include additional reviews or cross-verification of the SAP Phoenix uniform chart of accounts.

### **FINDING 3— Financial statement reporting error**

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

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

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

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

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



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

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

#### Recommendation

We recommend that the Court match the year-end closed ledger balances with published financial statements and replace published financial statements when accounts have been adjusted to ensure the accuracy of certified financial reporting.

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

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

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

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

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

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

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

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

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

Recommendation

We recommend that the Court:

- Create and implement local policies and procedures to identify, authorize, and compensate vendors who provide court services; and
- Adopt a clear, concise local contract form that defines the costs, rates, scope of work, and terms and conditions to use with independent vendors.

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

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## Superior Court of California County of Calaveras

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*Timothy S. Healy*  
*Presiding Judge*

*David M. Sanders*  
*Asst. Presiding Judge*

*Margaret L. Smith*  
*Court Executive Officer*

*Traci L. Witry*  
*Commissioner*

September 28, 2022

Joel James, Chief  
Financial Audits Bureau  
State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250

Re: 2022 Audit Report

Dear Mr. James:

### **I. Unadjusted Revenues**

#### **Recommendation**

We recommend that the Court implement accounting procedures to ensure that accounts are adjusted for prior-year transactions and accrual differences, 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.

#### **Court Response**

The Court concurs with the above recommendations and will implement as suggested.

### **II. Account Entry Error**

#### **Recommendations**

We recommend that the Court strengthen its controls to ensure the accuracy of account classifications when recording transactions in the general ledger. These procedures may include additional reviews or cross-verification of the SAP Phoenix uniform chart of accounts.

#### **Court Response**

The Court concurs with the above recommendations and will implement cross-verification of SAP Phoenix uniform chart accounts as suggested.

### **III. Financial Statement Reporting Error**

#### **Recommendations**

We recommend that the Court match the year-end closed ledger balances with published financial statements and replace published financial statements when accounts have been adjusted to ensure the accuracy of certified financial reporting.

#### **Court Response**

The Court concurs with the above recommendations and will implement as suggested.

### **IV. Internal Control Deficiency – Lack of Signed Vendor Contracts and Local Contracting Policies**

#### **Recommendations**

We recommend that the Court:

- Create and implement local policies and procedures to identify, authorize, and compensate vendors who provide court services; and
- Adopt a clear, concise local contract form that defines the costs, rates, scope of work, and terms and conditions to use with independent vendors.

#### **Court Response**

The Court concurs with the above recommendations and will implement as suggested.

Sincerely,

SUPERIOR COURT OF CALIFORNIA  
COUNTY OF CALAVERAS



MARGARET L. SMITH  
Court Executive Officer

**State Controller's Office  
Division of Audits  
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