

SUPERIOR COURT OF CALIFORNIA, COUNTY OF HUMBOLDT

Audit Report

VALIDITY OF RECORDED REVENUES, EXPENDITURES, AND FUND BALANCES

July 1, 2020, through June 30, 2021



BETTY T. YEE
California State Controller

September 2022



BETTY T. YEE
California State Controller

September 16, 2022

Kim Bartleson, Court Executive Officer
Superior Court of California, County of Humboldt
825 5th Street, Room 231
Eureka, CA 95501

Dear Ms. Bartleson:

The State Controller's Office audited the Superior Court of California, County of Humboldt (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 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 financial statements for the fiscal year in which they were earned. We noted a lack of signed contracts for vendor services, and a lack of signed overtime approval and employee health benefits election forms. We also found that a former employee had not been removed from the list of users authorized to access the Court's accounting system. These issues are described in the Findings and Recommendations section of our report.

This report is for your information and use. The Court's response is included as an attachment. 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/l

cc: Shannon Walker, Court Finance Manager
Superior Court of California, County of Humboldt
Martin Hoshino, Administrative Director
Judicial Council of California
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	6
Follow-up on Prior Audit Findings	6
Views of Responsible Officials	6
Restricted Use	6
Schedule 1—Summary of Revenues and Revenue Test Results	7
Schedule 2—Summary of Expenditures and Expenditure Test Results	8
Schedule 3—Summary of Fund Balances and Fund Balance Test Results	9
Findings and Recommendations	10
Attachment—Superior Court’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the Superior Court of California, County of Humboldt (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 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 financial statements for the fiscal year in which they were earned. We noted a lack of signed contracts for vendor services, and a lack of signed overtime approval and employee health benefits election forms. We also found that a former employee had not been removed from the list of users authorized to access the Court's accounting system. These issues are described in the Findings and Recommendations section of our 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, 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 and reporting are the core of our audit's subject matter.

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 \$9,203,686. The Court receives the majority of its revenue from state financing sources. The TCTF provided 81.5% of the Court's revenue. During the audit period, the Court incurred expenditures of \$9,349,820. Payroll-related expenditures (salaries and benefits) comprised 76.1% of total expenditures. The Court employed 73 staff members to serve Humboldt County's population of approximately 136,460 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, Special Revenue Non-Grant Fund, and 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. The 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 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 19 revenue items and 27 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, Special Revenue Non-Grant Fund, and 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 \$8,565,653 of \$9,203,686, or 93.1% 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 and benefits) accounts and non-payroll (Contracted Services) accounts.
- To test payroll-related expenditure accounts, we selected two bi-weekly pay periods occurring in August 2020 and April 2021, and reconciled the salary and benefit expenditures shown on the payroll

registers to the general ledger. We further selected six of 73 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 21 expenditure transactions to test key internal controls and the accuracy of recorded transactions;
 - Selected expenditure transactions that we considered individually significant (material), exceeding \$22,000; and
 - Traced expenditures recorded in the general ledger to supporting documents.
 - We tested \$184,695 of \$9,349,820, or 1.98% of total expenditures.

We noted a lack of signed contracts for vendor services, and a lack of signed overtime approval and employee health benefits election forms.

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

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.

Conclusion

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 financial statements for the fiscal year in which they were earned. We noted a lack of signed contracts for vendor services, and a lack of signed overtime approval and employee health benefits election forms. We also found that a former employee had not been removed from the list of users authorized to access the Court's accounting system. These issues are described in the Findings and Recommendations section of our report.

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 June 21, 2022. The Court responded by letter dated June 29, 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 Humboldt; 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.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

September 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 ¹	Percentage	Amount ¹	Percentage	Amount ²
<u>State Financing Sources</u>					
Trial Court Trust Fund ^{3, 4}	\$ 7,504,321	81.54%	\$ 7,504,321	100.0%	\$ (1,283)
Improvement and Modernization Fund	36,013	0.39%	-	0.0%	-
Court Interpreter	165,547	1.80%	165,547	100.0%	-
MOU Reimbursements ^{3, 4}	901,035	9.79%	895,785	99.4%	(2,220)
Other Miscellaneous	73,084	0.79%	-	0.0%	-
Subtotal	8,679,999		8,565,653		(3,503)
<u>Grants</u>					
AB 1058 Commissioner/Facilitator	202,903	2.20%	-	0.0%	-
Other Judicial Council Grants	162,474	1.77%	-	0.0%	-
Non-Judicial Council Grants	23,849	0.26%	-	0.0%	-
Subtotal	389,227		-		-
<u>Other Financing Sources</u>					
Interest Income	13,125	0.14%	-	0.0%	-
Local Fees	(9)	0.00%	-	0.0%	-
Non-Fee Revenues	19,667	0.21%	-	0.0%	-
Enhanced Collections	11,612	0.13%	-	0.0%	-
Escheatment	-	0.00%	-	0.0%	-
Prior Year Revenue	70,826	0.77%	-	0.0%	3,503
County Program - Restricted	618	0.01%	-	0.0%	-
Sale of Fixed Assets	-	0.00%	-	0.0%	-
Reimbursement Other	17,863	0.19%	-	0.0%	-
Other Miscellaneous	758	0.01%	-	0.0%	-
Subtotal	134,460		-		3,503
Total Revenues	<u>\$ 9,203,686</u>	100.0%	<u>\$ 8,565,653</u>	93.1%	<u>\$ -</u>

¹ Differences due to rounding

² Revenues over/(under) stated; see Finding 1

³ Material account

⁴ Tested account internal controls

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

Expenditure Accounts	Expenditures Reported		Expenditures Tested		Error
	Total ¹	Percentage	Amount ¹	Percentage	Amount ²
<u>Personal Services</u>					
Salaries – Permanent ^{3, 4}	\$ 4,499,019	48.1%	\$ 22,495	0.50%	\$ -
Temporary Help	30,865	0.3%	-	0.0%	-
Overtime	8,896	0.1%	145	1.63%	-
Staff Benefits ^{3, 4}	2,619,467	28.0%	7,539	0.29%	-
Subtotal	7,158,247		30,178		-
<u>Operating Expenses and Equipment</u>					
General Expense	281,272	3.0%	-	0.0%	-
Printing	9,833	0.1%	-	0.0%	-
Telecommunications	40,579	0.4%	-	0.0%	-
Postage	65,355	0.7%	-	0.0%	-
Insurance	3,752	0.0%	-	0.0%	-
In-State Travel	4,401	0.1%	-	0.0%	-
Out of State Travel	-	0.0%	-	0.0%	-
Training	748	0.0%	-	0.0%	-
Security Services	171,968	1.8%	-	0.0%	-
Facility Operations	40,552	0.4%	-	0.0%	-
Utilities	-	0.0%	-	0.0%	-
Contracted Services ^{3, 4}	1,279,746	13.7%	154,517	12.07%	-
Consulting and Professional Services	10,316	0.1%	-	0.0%	-
Information Technology	259,126	2.8%	-	0.0%	-
Major Equipment	-	0.0%	-	0.0%	-
Other Items of Expense	109	0.0%	-	0.0%	-
Subtotal	2,167,758		154,517		-
<u>Special Items of Expense</u>					
Grand Jury	-	0.0%	-	0.0%	-
Jury Costs	30,062	0.3%	-	0.0%	-
Judgements, Settlements, 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	(6,247)	-0.1%	-	0.0%	-
Subtotal	23,816		-		-
Total Expenditures	\$ 9,349,820	100%	\$ 184,695	1.98%	\$ -

¹ Differences due to rounding² No errors reported³ Material account⁴ Tested account internal controls

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

Fund Balance	General Fund ¹	Non-Grant Special Revenue Fund ¹	Grant Special Revenue Fund ¹	Fiduciary Fund	Total ¹
Beginning Balance	\$ 313,343	\$ 161,975	\$ -	\$ -	\$ 475,318
Revenues	8,772,984	41,476	389,227	-	9,203,686
Expenditures	(8,735,224)	(161,323)	(453,273)	-	(9,349,820)
Transfers In	-	5,243	64,046	-	69,289
Transfers Out	(69,289)	-	-	-	(69,289)
Ending Balance	<u>\$ 281,813</u>	<u>\$ 47,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 329,184</u>
Errors Noted					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

¹ Differences due to rounding.

Findings and Recommendations

FINDING 1— Unadjusted revenues

In our testing of revenue transactions, we noted three instances of unadjusted entries in the Court's current-year (FY 2020-21) operating accounts.

In each of these instances, 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. We also noted one deposit that was misclassified to an incorrect revenue account.

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 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 the following revenue accrual adjustment and posting errors:

- GL Account Number 812146 (TCTF – Copy Preparation) – The Court accrued \$685 in the prior year (FY 2019-20) that was not received subsequently in the current year (FY 2020-21). This unadjusted difference resulted in the current-year program revenue account being understated by \$685.
- GL Account Number 812155 (TCTF – Conservatorship Investigation) – The Court received a \$3,284 deposit of prior-year reimbursement revenue, but accrued \$3,882 in the prior year. This unadjusted difference resulted in the current-year program revenue account being understated by \$598.
- GL Account Number 832013 (TCTF – Elder/Dependent Adult Abuse) – The Court accrued \$2,220 in the prior year (FY 2019-20) that was not received subsequently in the current year (FY 2020-21). This unadjusted difference resulted in the current-year program revenue account being understated by \$2,220.
- GL Account Number 832010 (TCTF – MOU Reimbursements) – The Court misclassified a reimbursement of \$5,920 for its Improving Educational Outcomes for Tribal Youth program as a TCTF reimbursement instead of as a General Fund reimbursement. This reimbursement should have been recorded in GL Account Number 831013 (General Fund – MOU Reimbursements). This error had no effect on the Court's reported revenue total.

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 (11th edition, June 2020) states:

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

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 deposits for the prior year that were not previously accrued should be either entered in or reclassified to the adjustment account.

We also recommend that the Court's accounting procedures include ensuring the accuracy of account classifications when recording transactions in the general ledger.

**FINDING 2—
Internal control
deficiency – Lack
of signed vendor
contracts**

As part of testing Contracted Services, we requested supporting documentation for selected court interpreter charges and found that the Court does not have contracts with three vendors who provided these services. To substantiate these charges, the Court provided invoices for interpreter services, court interpreter daily activity logs, and correspondence between the vendors and the Court's Coordinating Supervisor.

We also found that the court does not maintain a policy for contracting with court interpreters.

In reviewing JCC policies, we found that the *Judicial Branch Contracting Manual* (revised effective August 1, 2018) contains two provisions that are relevant to a court's contracting and interpreting services:

- Page 5 ("Local Contracting Manual") requires each judicial branch entity to adopt a Local Contracting Manual for procurement and contracting for goods and services by that judicial branch entity.
- Pages 5–6 ("Content and Exclusions") 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."

We also found that the JCC issued "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 (hereinafter referred to as "interpreter") before service is provided.

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

Recommendation

We recommend that the Court:

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

**FINDING 3—
Internal control
deficiency – Lack
of signed health
benefit and
overtime approval
forms**

We included in our expenditure testing a review of the Court's salaries and benefits accounting. Our procedures included reviewing a sample of employee health benefit election forms and attendance records to verify that the Court maintains properly authorized and completed forms, and to verify that expenditures are being recorded accurately in the accounting records.

We selected six employees and noted two exceptions in our testing of payroll and benefits accounting:

- For one of the six employees, the Court was unable to provide the employee's health benefit election form signed by the Health Benefit Officer and the employee. The Court provided alternative records to substantiate the benefit elections and amounts charged for the employee.
- For one of the six employees, the Court could not provide documentation for pre-approval of overtime worked. Court staff stated that the employee directly reports to the Court Executive Officer and is given a verbal approval prior to working overtime.

As a best practice of internal control and compliance and to reduce the risk of dispute or error, the Court should maintain signed original health benefit election forms and time records for all employees in its official personnel files.

GC section 71660 requires that trial courts maintain personnel files. Paragraph (b) of GC section 71660 states:

Each trial court shall keep a copy of each employee's official personnel files at the place where the employee reports to work, or shall make the official personnel files available where the employee reports to work within a reasonable period of time after a request for the official personnel files by the employee.

Recommendation

We recommend that the Court:

- Strengthen its system of controls by reviewing personnel files to ensure that it retains appropriately completed and signed employment records; and
- Incorporate and implement procedures to document pre-approval and use of overtime in the Court's local personnel policies.

**FINDING 4—
Internal control
deficiency –
Court's accounting
system user access
list not updated**

During our evaluation of the electronic access controls over the Court's accounting system, we noted that the Court's user list included the username of an employee who is no longer employed by the Court.

The courts are bound by JCC internal policies and an organizational structure designed to protect information assets. An effective system of internal controls includes various control activities to help mitigate significant risks.

On behalf of courts, the JCC maintains the accounting system, and centrally controls creation, modification, and deletion of user accounts through its shared services center staff. This centralized function operates to assist courts in securing system data records and safeguarding information and resources. Each court individually identifies its staffing and operational needs, approves its user privileges, and submits system access request forms to the JCC's system security staff to create, modify, and delete user accounts.

Recommendation

We recommend that the Court strengthen its system of controls to reduce the risk of unauthorized access by periodically reviewing its list of system users, and making timely requests of JCC's system security staff to update user access, privileges, and functional roles.

**Attachment—
Superior Court’s Response to Draft Audit Report**



**SUPERIOR COURT OF CALIFORNIA
COUNTY OF HUMBOLDT**

Kim M. Bartleson, CCE
Court Executive Officer/
Jury Commissioner

Gregory Elvine-Kreis
Presiding Judge

June 29, 2022

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

The Superior Court of California, County of Humboldt (Court) has reviewed the draft audit report and agrees with the State Controller's Office (SCO) audit findings. We appreciate the SCO's detailed review of our revenues, expenditures, and fund balances. Through this process the Court has gained experience and awareness that will assist in making improvements to our operations. Below are our responses to each of the findings in the report.

Finding 1: Unadjusted revenues

The Court agrees that it did not make the proper prior year revenue adjustments to the three revenue accounts identified. It was the Court's standing practice to accrue revenue in these accounts but did not have a procedure in place to reconcile the entries for re-accrual or prior year adjustments. The Court will be changing its practice to address the issue.

The court agrees one deposit was misclassified in the wrong revenue account and will increase its efforts to make correct account classifications.

Finding 2: Internal control deficiency – Lack of signed vendor contracts

The Court agrees that it is a best practice to have signed contracts with its independent contractors providing court interpreter services however there was no requirement to do so within the scope of this audit. It was the Court's practice to informally negotiate terms prior to requesting all interpreter services through email communications with the vendor. The court will change its practice to adhere to the JCC Payment Policies for Independent Contract Interpreters effective 7/1/2021.

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Finding 3: Internal control deficiency – Lack of signed health benefit and overtime approval form

The health benefit form provided was from 10 years ago. The Courts current practice is to maintain completed signed forms in all personnel files.

Although the court could not provide documentation of pre-approval of overtime court employees are aware of the policy that requires them to seek approval in advance and has not experienced any issues with employees not following that policy. The Court agrees that to reduce risk of dispute error a documented pre-approval process should be established.

Finding 4: Internal control deficiency – Court's accounting system user access list not updated

The Court agrees with the need to strengthen system controls and will follow the recommendations provided.

The Court appreciates having SCO reviews to provide opportunities for improving internal policies. The SCO auditors were a pleasure to work with and were accommodating with our time constraints.

Sincerely,



Kim M Bartleson
Court Executive Officer

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