

**The Judicial Council of California,
Administrative Office of the Courts**

Performance Audit of the
Superior Court of California, County of Los Angeles

February 2013

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Table of Contents

Executive Summary 1

Timing and Reviews with Management..... 5

Scope and Methodology..... 7

Section 1: Improvements to Case Management Systems and Cash Collections Practices are Necessary to Safeguard Court Assets 11

Section 2: The Court Could Strengthen Its Accounts Payable Processes 21

Section 3: While the Court Employed Many Good Procurement Practices, Protocols Could be Enhanced to Better Protect Court Interests..... 25

Section 4: The Court Should Continue Efforts to Reconcile its Funds Held in Trust and Escheat or Refund Stale Monies 37

Section 5: Domestic Violence Fees and Fines Were Not Always Assessed per Statute 43

Section 6: Exhibit Tracking and Management Practices Should Be Strengthened and Reinforced 47

Appendix A: Matrix of Audit Results by Courthouse Location..... 53

Appendix B: Court’s Full Response 55

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Executive Summary

On behalf of the Judicial Council of California, Administrative Office of the Courts (AOC)'s Internal Audit Services (IAS), Sjoberg Evashenk Consulting, Inc. (SEC) initiated an audit of the Superior Court of California, County of Los Angeles (Court) in May 2012 that encompassed administrative and operational areas such as exhibits and domestic violence, as well as fiscal areas such as cashiering, contracting, and procurement. This was the third audit of the Court conducted by SEC as part of the AOC's multi-phased approach. The first audit, conducted in 2005, focused on the Court's controls over cash, automated systems, and exhibits; while the second audit in 2008 concentrated on the Court's financial activity, procurement, county-court services, and the Court's pending transition onto the statewide Phoenix-FI financial system. In large part, this current audit in 2012 largely involved assessing the operational changes made since implementing Phoenix-FI, following up on prior audit recommendations, and reviewing the Court's compliance with statute, California Rules of Court, the *Trial Court Financial Policies and Procedures Manual* (FIN Manual), and other relevant policies.

With annual expenditures topping \$670 million, the Los Angeles County Superior Court is the largest court in the nation. Court activities and programs are similar to those of all courts in California, but the Court's management and coordination of 456 judges and 4,894 court employees spread across 594 courtrooms, 47 courthouses, and 12 districts while serving 9.5 million county residents provides another level of complexity and challenge. Over the past few years, the Court successfully migrated to the Phoenix-FI financial system and procurement module, centralized its procurement and contracting activities previously performed by 12 decentralized districts throughout Los Angeles County, and began implementing key provisions of the Judicial Branch Contracting Manual (JBCM), all while facing significant budgetary constraints that have required layoffs and the closure of courtrooms. This situation is compounded by state-wide budget cuts to court operations and recent changes to contracting requirements for the Judicial Branch resulting from the newly established JBCM—both of which led to the Court's decision to restructure its procurement process in June 2012.

Overall, we found the Court had many good practices in place. Throughout the audit, SEC found court management exhibited a positive "tone at the top" and was supportive of recommendations for improving court operations. Moreover, the Court generally complied with statutes and Rules of Court in addition to taking steps and addressing many of the previous audit recommendations. For instance:

- Frugal spending has bolstered the Court's fund balance and reserves;
- Procurement and accounts payable functions were appropriately segregated;
- Cash handling processes exhibited several good controls in areas over the endorsing of checks immediately upon receipt, investigating daily collection discrepancies before final close-out, and restricting the ability to reverse or void payments in the cashiering system;
- Robust internal audits focused on areas with issues such as cash receipts, voids and system access, bail refunds, court interpreters and reporters, exhibits, and payroll controls as well as fraud awareness classes provided to staff at outlying court locations;

- Exhibits were generally stored in a secure location; and,
- Unique login and password profiles were in place over automated information systems.

However, while the Court is committed to improve its operations, many of the same issues raised in the prior audit reports from 2005 and 2008 remain uncorrected. As such, our current audit revealed similar issues such as case management systems not being reconciled to the Court's cashiering systems, cash not sufficiently secured, and unreconciled funds held in trust balances. Many of the issues noted are less significant and seem to merely require additional training and strengthening of practices at the outlying court locations, including those issues related to cash handling and accounts payable processing. In other cases, correction of audit issues will take a more concerted approach to make wholesale changes in practice over areas such as procurement. Still other areas will likely remain issues until significant time and investment is made to update and modify case management system functionality and add key control features. Yet, system changes are both costly and time-intensive, especially at a court the size of Los Angeles.

While the body of our report discusses our audit results in detail, we have highlighted the issues identified during the audit below:

➤ ***Improvements to Case Management Systems and Cash Collections are Necessary to Better Safeguard Collections***

Mostly, we found that cashiering processes generally complied with the FIN Manual, helping to ensure that fees and fines collected was adequately safeguarded. Most court locations we reviewed kept cash drawers locked at all times, balanced daily collections, segregated cash handling duties appropriately, and confirmed bank deposits. Nevertheless, this audit revealed certain areas where controls still need improvement, such as clerks having the ability to close cases where money is owed, manual receipts not being tracked, and Department of Motor Vehicles system access not being monitored.

➤ ***The Court Could Strengthen Its Accounts Payable Processes***

Although the Court's procurement practices are in a state of flux as management takes steps to reorganize, streamline, and modify its practices to better comply with the newly adopted Judicial Branch Contracting Manual (JBCM), we found that the Court generally utilizes some good practices over its accounts payable functions, including using the control features embedded within Phoenix-FI to ensure all the necessary approvals take place and conflicting duties are appropriately segregated. However, we identified several areas in which the Court can strengthen controls related to support for expenditures.

➤ ***While the Court Employed Many Good Procurement Practices, Protocols Could be Enhanced to and Better Protect Court Interests***

With the implementation of Phoenix-FI's procurement module and the new JBCM, the Court is in the midst of significant changes in its procurement practices. Most recently (June 2012), the Court centralized its procurement and accounts payable functions and is still in the process of determining how the newly centralized processes will work to ensure compliance. Additionally, the Court is undertaking a deliberative process to

memorialize its new process in a Local Contracting Manual once centralization activities are resolved. Because the Court is in this transitional phase, it recognized that continued effort is necessary to achieve full compliance.

Because of these ongoing modifications, we reviewed procurement and expenditure practices at seven outlying court locations as well as the Central Courthouse and found practices employed were generally consistent amongst the locations and adhered to strong control practices. This includes the Court's use of purchase requisition and purchase order processes as well as processing payments after performing a "three-point match" between invoices, purchase orders, and receiving documents. Yet, our audit also revealed isolated instances where court staff did not always follow established court practices to use purchase orders and encumber funds.

Further, similar to the 2008 audit, we found that the Court-County agreements should be enhanced to better protect the Court's interests. While the Court has made progress since the prior audit, the agreements still did not always incorporate adequate scope, costs, and deliverable provisions or were not formalized in writing, as required in the FIN Manual and the JBCM.

➤ ***The Court Should Continue Efforts to Reconcile its Funds Held in Trust and Escheat or Refund Stale Monies***

Similar to the results described in the 2008 audit report, we identified several reoccurring areas that continue to pose a risk to the Court including the inventory of inactive or stale trust cases that need to be researched to close, refund, or escheat trust monies. Since the prior audit, the Court has developed an escheatment plan addressing stale monies and has escheated more than \$1.1 million in Fiscal Year 2010-2011, and is planning to escheat another \$1.1 million in Fiscal Year 2012-2013. We also found the Court is unable to fully reconcile cumulative trust balances between case management systems, fiscal records, and bank accounts including a known "out of balance" amount of \$283,550; according to court management, it has identified the nature of the trust discrepancies and is working with the County to resolve the items.

➤ ***Domestic Violence Fees and Fines Were Not Always Assessed per Statute***

Our testing revealed that in more than half of the 39 cases tested, the Court did not assess the mandatory fees and fines in accordance with statute, or the amounts assessed were not accurately reflected in the cashiering and case management systems.

➤ ***Exhibit Tracking and Management Practices Should Be Strengthened and Reinforced***

Although we found several good practices in place to oversee and securely store court exhibits, some exhibits were difficult to locate, mislabeled, or not recorded with sufficient detail to ensure all items were properly inventoried. However, we did not identify any lost or missing exhibits and most of the exhibits currently held appear to be less sensitive items consisting of paper documents and pictures rather than sensitive items or money.

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Timing and Reviews with Management

On May 2, 2012, an entrance meeting was held with court management with audit fieldwork commencing that same date. Although fieldwork was formally completed in October 2012, preliminary results were discussed with court management throughout the course of the review at several intervals between July and September 2012. Feedback and perspectives from responsible court officials were obtained throughout the course of this audit and were incorporated into this report.

A final review of audit results was held on November 27, 2012 with:

- William Mitchell, Deputy Executive Officer, Administration and Finance
- Rene Phillips, Director, Financial Services Administration
- Chris Anderson, Chief Procurement Officer, Contracts and Supply Management Division
- Christine Padilla, Finance Administrator, Expenditure and Resource Management
- Debbie Soohoo, Finance Administrator, Revenue Management Division
- Susie Yuan, Accounting Supervisor, Revenue Management Division
- Terry Weiss, Director, Legal/Support Services
- Kristie Lange, Senior Administrator, Internal Affairs and Audit Compliance
- Tim Takara, Auditing Supervisor, Internal Affairs and Audit Compliance

Management responses to our recommended actions were received on February 4, 2013, and can be found at the end of this report as well as highlighted in each report section.

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Scope and Methodology

In May 2012, the Senior Manager of the Internal Audit Services (IAS) at the Judicial Council of California, Administrative Office of the Courts (AOC) requested our firm, Sjoberg Evashenk Consulting, Inc. (SEC), to conduct a performance audit of the Superior Court of California, County of Los Angeles (Court) in accordance with Generally Accepted Government Auditing Standards. This is the third audit of the Court since 2005, and is part of a multi-phased approach to review the Court's transition and implementation onto the statewide financial system, Phoenix-FI. Further, this review determined the extent to which the Court has:

- Complied with applicable statutes, California Rules of Court, the Trial Court Financial Policies and Procedures Manual (FIN Manual), and the Court's own policies and procedures, as well as with the newly adopted Judicial Branch Contracting Manual (JBCM); and,
- Designed and implemented an internal control structure that can be relied upon to ensure the reliability and integrity of information; compliance with policies, procedures, laws and regulations; safeguarding of assets; and economical and efficient use of resources.

Additionally, compliance with the Financial Integrity and State Manager's Accountability Act (FISMA) is also an integral part of the audit. The primary thrust of a FISMA review is an assessment of an entity's internal control structure and processes. While IAS does not believe that FISMA may apply to the Judicial Branch, IAS believes it does represent good public policy. Thus, IAS incorporates FISMA internal control concepts and guidance in its audits including the following:

- A plan of organization that provides segregation of duties appropriate for the proper safeguarding of assets;
- A plan that limits access to assets to authorized personnel;
- A system of authorization and recordkeeping adequate to provide effective accounting control;
- An established system of practices to be followed in the performance of duties and functions; and,
- Personnel of a quality commensurate with their responsibilities.

Audit Scope

In general, the audit of the Los Angeles County Superior Court included reviews of certain functional areas including cash collections and automated systems, procurement and contracting, accounts payable, domestic violence, and exhibits at eight outlying court locations as well as at the Court's Central Courthouse location. Given that this is the third audit of the Court as part of a multi-phased approach, many of the audit steps focused on changes the Court has made since deploying the Phoenix-FI system and following up on areas where previous issues were noted. The period of our audit primarily focused on Fiscal Years 2009-2010 through 2011-2012, although more current data from Fiscal Year 2012-2013 was reviewed as appropriate.

Audit Methodology

Because this is the third audit of the Court in the last seven years, certain areas were tested in more depth while other areas had a more limited focus. We employed a variety of audit tests, analytical processes, evaluative techniques, interviews, and other methods to obtain appropriate data, evidence, and context information to support our report. To evaluate the Court's fiscal and administrative operational compliance with the Trial Court Financial Policies and Procedures Manual (FIN Manual) and Judicial Branch Contracting Manual (JBCM), as well as assess internal controls employed throughout court operations, we performed procedures that generally encompassed the activities described below.

To understand the Court's environment, we met with executive management to discuss the Court's organizational structure, local rules, and judicial practice. As part of these discussions, we reviewed the Court's practices related to submitted cases to ensure the appropriate Rules of Court were followed as well as assessed compliance with rules associated with conflict of interest provisions and executive compensation negotiations and approvals. Generally, we found reasonable processes in place and have no reportable issues in these areas.

Additionally, we conducted interviews with appropriate court personnel regarding court account and fund balances as well as fiscal policies, practices, level of oversight, and general knowledge of fiscal management protocols and FIN Manual policies. We also reviewed the Court's process for transferring information recorded in the County financial system, eCAPS, to the court-wide Phoenix-FI financial system to ensure the integrity of the data and assess the potential for error. The Court's transfer process, developed by an external consultant, is automated with only limited manual interaction needed to research and clear exceptions. We found the process to be competent and had no reportable issues in this area.

Certain court operational functions are performed on a decentralized basis at the Court's 47 courthouse locations. To review cash collections, purchasing, accounts payable, domestic violence, and exhibits, we selected a representative sample of court locations for review using a cross-section of court district locations, geographical areas, cashiering systems, bank accounts, cash collections, case filings, prior audit results, investigations conducted, and expenditure budgets among other factors considered. Following this methodology, we identified the following eight court locations as well as centralized services at the Stanley Mosk Courthouse for review:

- | | | |
|---------------------|--------------|------------------|
| 1. Beverly Hills | 4. Glendale | 7. Santa Clarita |
| 2. Downey | 5. Inglewood | 8. West Covina |
| 3. East Los Angeles | 6. San Pedro | |

At each location, we observed key cash receiving, handling, and disbursement processes, including fees/fines/forfeiture collection, receipt of payments by mail, cash balancing to the courts cashiering systems, (Payment Revenue Distribution (PRD) system or Financial Platform System (FPS)), deposit preparation, and claims preparation. We reviewed claims, deposit permits, end-of-day system reports, reconciliations, backlogs, user access reports and activity, Department of Motor Vehicle usage reports, other system reports, and cash transaction documentation.

Additionally, we assessed whether the Court has controls over automated systems in areas such as access and security reports. Where feasible, we obtained a security level printout from each system that identified users, roles, and access to determine if levels were appropriate for positions and whether the proper segregation of duties existed. In terms of revenue distribution, we conducted a high level review of the process used to update and test distribution formulas within the FPS and PRD cashiering systems. Processes employed were reasonable; thus, we have no reportable issues in this area. Moreover, the State Controller's Office is currently conducting a review of the Court's protocols and accuracy in revenue distribution.

Additionally, we reviewed 39 domestic violence cases at seven of the eight court locations to determine if mandatory fees and fines, including, but not limited to Domestic Violence Fees, State Restitution Fines, and Probation Revocation Restitution Fines, were appropriately assessed as required by statute. We did not review domestic violence cases at the San Pedro Courthouse because this location did not have a criminal department.

For a sample of 44 exhibits at the eight outlying court locations, we evaluated policies and procedures in place to safeguard and account for exhibits including whether regular inspections and/or annual inventories were conducted timely, stale or unneeded exhibits were disposed of or destroyed once a case was closed, and case exhibits were securely stored and maintained. Mainly, we focused on higher risk exhibits, such as cash, sensitive items, and jewelry, and verified that a sample of exhibits was properly located as recorded/accounted for on tracking documents.

Although the Court was undergoing a major reengineering effort of its contracting and procurement area during our audit, we inquired about, reviewed, and evaluated the Court's procurement and contracting practices to determine compliance with the FIN Manual's requirements prior to October 1, 2011 as well as the Judicial Branch Contracting Manual that was effective after October 1, 2011. We identified county provided services to the Court and reviewed interagency agreements, department service orders, and memorandums of understanding. Additionally, we performed a high level review of 5 contracts to determine whether major contract elements such as cost, schedule, scope of work, and terms and conditions were present and contracts were appropriately executed and approved in accordance with court authorization levels.

Because procurement and accounts payable processes had changed or were in the process of changing over the audit period, we only conducted a limited review of expenditures. Specifically, we reviewed 96 expenditure transactions at seven of the eight outlying court locations as well as at the Central Courthouse related to services and supplies purchases, court interpreters, court reporters, expert witnesses, and judges and employee travel to determine if court procedural controls were in place to ensure payments were properly authorized, approved, and paid accurately. We evaluated purchase requisitions, purchase orders, vendor invoices, folios, travel expense claims, and other supporting payable documentation. However, we did not review expenditures at the Inglewood Courthouse because those expenditures were processed by another district courthouse.

Additionally, we followed-up on prior year audit results related to courthouse security that were discussed in a separate security audit report. Specifically, we verified that a memorandum of understanding is in place, while the Court and County are currently in negotiations to modify the agreement, and the Court continues to monitor on a quarterly basis the agreed-upon level of service provided by the Sherriff's Office by conducting periodic courtroom monitoring reviews. We found the Court's efforts to be reasonable and have no reportable issues in this area.

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

Section 1: Improvements to Case Management Systems and Cash Collection Practices are Necessary to Safeguard Court Assets

With approximately \$567 million in fee and fine amounts collected in Fiscal Year 2010-2011 and approximately more than 2.4 million case filings in calendar year 2011, the Court handles all case types including criminal, traffic, civil, appeals, family law, small claims, unlawful detainers, and probate cases through its 47 locations where payments are accepted. To process its collections, the Court utilizes two primary cashiering systems—the Payment Revenue Distribution (PRD) system and Financial Platform Systems (FPS)—in addition to a variety of case management systems at each of its court locations. In the past, all fees and fines payments were processed through FPS; however, beginning in September 2011, the Court began replacing FPS with PRD. Effective November 2012, all court locations had implemented PRD.

We found that cashiering processes generally complied with the FIN Manual helping to ensure that fees and fines collected were adequately safeguarded. Most court locations we reviewed kept cash drawers locked at all times, balanced daily collections, segregated cash handling duties appropriately, and confirmed bank deposits. Nevertheless, this audit revealed certain areas where controls still need improvement such as mitigating clerks' ability to close cases with amounts still owed, better tracking and managing manual receipts, and monitoring DMV access.

While many of these could appear less significant on their own, when viewed together, along with the system weaknesses described below, they combine to create an environment that puts the security of assets at risk. For example, a court employee could potentially receive money from an individual and pocket the payment without processing it through PRD, then manually update the case management system to show the case as paid without court managements' knowledge. It is important to note that this audit did not identify instances of theft or wrongdoing; however, many of these areas were previously identified in the prior audit in 2005 and remain unresolved.

Missing System Functionality Continues to Increase the Court's Risk of Not Safeguarding Court Assets

With the recent implementation of the Court's new PRD cashiering system, several additional controls were implemented over the cashiering function. For instance, the new system is updated on a real-time basis, every activity posted is a separate transaction providing a more robust audit trail, and the system ensures unique and valid user identification. Yet, at the eight court locations we visited, we noted several concerns associated with the functionality of certain automated case management systems—many of the same system weaknesses identified in the November 2005 audit that remain uncorrected.

Although the Los Angeles County Superior Court operates many different case management systems, the majority of courthouses we reviewed used similar systems for processing similar case types. For example, all court locations processing criminal cases informed us that they used the Trial Court Information System (TCIS), while traffic cases were processed using the Expanded Traffic Records System (ETRS). Similarly, most courthouses used the Small Claims

On-line Tracking (SCOT) system for small claims and either SUSTAIN or the Civil Information Automation System (CIVAS) to record civil case activity.

With the use of different case management systems, it is expected that differing levels of functionality related to processes and system-generated reports would exist. Yet, at each of the eight courthouses reviewed, we found similar problems among the various court locations and different case management systems. Specifically, clerks at all locations reviewed had the ability to close cases without management's approval. Additionally, the Court does not reconcile its CMS to its cashiering system and, thus, would not be able to detect if a case had been closed without money being receipted.

Clerks have the Ability to Modify Payment Information and Close Cases in Case Management Systems without Approval

In all case management systems reviewed as well as the Court's cashiering systems, clerks have the ability to close cases with outstanding monies owed and the Court is limited in its ability to generate exception reports to identify cases with monies owed. For instance, for ETRS, the Court has the ability to run reports to identify cases closed with monies still owed because the case management system is integrated with the cashiering system; however, TCIS is not integrated and the Court cannot run reports to identify cases closed with monies owed. In addition, we found that at all of the eight court locations reviewed cashiers have the ability to process payments and enter a disposition on cases in the case management systems. While employee access is limited to specific terminals, the level of access granted to clerks combined with missing system controls or non-automated review practices restricts the Court's ability to detect potentially inappropriate activity and to ensure cases are closed only when appropriate fees and fines has been paid and the judges' orders have been complied with. This significantly increases the risk that an employee could conceal theft or dispose of a case, intentionally or unintentionally, in a manner contrary to a judges' order.

According to the Court's Chief Information Officer, the Court is aware of our concerns and is working to assess the feasibility of interfacing PRD with its case management systems and developing reports to identify discrepancies and mitigate the potential risk of inaccurate data and inappropriate activity. Moreover, the Court's Internal Affairs and Audit Compliance staff is actively conducting audits and investigations in this area. Over the last four years, Internal Audit staff have conducted more than 45 audits related to cash handling and system access as well as more than 100 investigations involving this area.

Court Does Not Reconcile its Case Management Systems to its Cashiering System and Cannot be Assured Data is Consistent

While systems integration or the purchase of a new system may be necessary to adequately prevent inappropriate activity, a process to compare or reconcile records between case management systems and cashiering systems could identify exceptions that would require further review. Yet, no staff at the eight courthouse locations reviewed are regularly performing a comparison between the two systems and case files to ensure accuracy of data or to verify activity is appropriate.

Case-related events and actions as well as amounts owed are documented in various case management systems—although the actual collection and distribution of fees and fines monies is processed through one of the Court’s two cashiering systems, FPS or PRD. With the exception of the Court’s ETRS traffic case management system, the cashiering systems are not integrated with the Court’s various case management systems requiring a manual process to update the case management systems with collections data. Combined with the ability to close cases with money owed, a cashier could inappropriately pocket cash and then close a case without management’s knowledge.

The Combination of Several Cashiering Practices Increase Risk of Theft or Loss

Overall, we found many strong manual cash controls in place at the eight courts we reviewed that adhered to the Trial Court Financial Policies and Procedures Manual §10.02 requirements and court-wide policies and procedures. For example, we found each court location reviewed had appropriate controls over voids and reversals and ensured access to these functions were restricted to management. We also found that most of the courthouses reviewed employed strong practices over the timely deposit of cash receipts, physical security of cash in route to the bank through the use of an armored car service, and daily reconciliation of cash receipts processed against bank record activity. In addition, many courthouses appropriately segregated incompatible duties over their cashiering process.

However, most of the court locations reviewed could enhance their existing controls in several areas related to controls over manual receipts, daily collections, change funds, compliance with FIN Manual requirements, and DMV access. Furthermore, many of the issues identified at the eight court locations reviewed were also identified at the 11 court locations reviewed in the November 2005 audit report and still remain issues. While these items are not significant individually, they were noted at several court locations potentially indicating a more systemic weakness that could pose a higher risk of theft or loss of funds, and indicates a need for continued training. Table 1: *Summary of Cashiering Issues Identified* summarizes the issues identified at each of the eight locations reviewed.

Table 1: *Summary of Cashiering Issues Identified*

| Court Name | Issue #1: Insufficient Review of Fee and Fine Reductions and for Fee Waivers | Issue #2: Manual Receipts Are Not Well Tracked or Managed | Issue #3: Daily Collections Not Always Safeguarded | Issue #4: Surprise Cash Counts Are Not Conducted at Least Quarterly | Issue #5: DMV Access is Not Adequately Monitored |
|-------------------|---|--|---|--|---|
| Beverly Hills | ✓ | | | | ✓ |
| Downey | ✓ | ✓ | ✓ | ✓ | ✓ |
| East Los Angeles | ✓ | | | ✓ | ✓ |
| Glendale | ✓ | | | ✓ | ✓ |
| Inglewood | ✓ | ✓ | ✓ | ✓ | ✓ |
| San Pedro | ✓ | | | ✓ | ✓ |
| Santa Clarita | ✓ | ✓ | | ✓ | ✓ |
| West Covina | ✓ | ✓ | ✓ | ✓ | ✓ |
| Totals | 8 | 4 | 3 | 7 | 8 |

Court did Not Consistently Review Fee and Fine Reductions

As part of normal court operations, fees and fines amounts maybe reduced based on an evaluation of the ability to pay or as a result of a judicial order. Although the Court has the ability to generate fee/fine reduction reports for traffic cases through the FPS/PRD systems and court policy requires courts to audit the Reduced Fine Disposition Report weekly, we found that at five of the eight court locations reviewed (Downey, Inglewood, San Pedro, Santa Clarita, West Covina) the Court was either not reviewing or not actively monitoring current traffic fees and fines reductions to ensure reductions were appropriate as required by courtwide policy. For example, at the time of our review we found that the Santa Clarita Courthouse was reviewing FPS Reduced Fine Disposition reports from several years prior, not the current report. Upon notification, court management indicated they would begin to review current reports on a weekly basis as required by courtwide policy. At the San Pedro and Inglewood Courthouses, the Court was not reviewing the FPS Reduced Fine Disposition reports at all.

Similarly, although the CIVAS and SCOT systems have the ability to generate reports of civil fee waivers, we found that six of the eight Court locations (Beverly Hills, Downey, Glendale, Inglewood, San Pedro, West Covina) did not have a process in place to sufficiently ensure all fee waivers processed through CIVAS and SCOT were appropriate and authorized. For example, the West Covina Courthouse verifies fee waivers were appropriately processed during random desk reviews, but the Court does not have a process in place to identify a universe of fee waivers and verify that a sample of waivers were appropriately processed. At the Downey Courthouse, the Court utilizes a manual process to track fee waivers; however, because the Court does not

generate reports of fee waivers from its case management system, it cannot be assured that the spreadsheet used by management to verify fee waivers is comprehensive. Furthermore, although we found that the CIVAS and SCOT systems have the ability to generate fee waiver reports, court management at some locations indicated they were unaware of the systems reporting capabilities and that reports could be generated by the system. To strengthen the Court's controls over fee waivers, the Court should periodically run reports of fee waivers from the Court's case management systems and select a sample to ensure the waivers were appropriately processed and were authorized.

Finally, the Court can generate limited fee/fine reduction reports for criminal cases, although these reports do not show dollar amounts adjusted. While any fees and fines reduction should be supported by an underlying judicial order granting the reduced amounts, cashiers also have the ability to reduce criminal fine amounts in the case management system without approval of a supervisor as well as the ability to process fee waivers without appropriate oversight. Moreover, none of the seven courts reviewed were actively monitoring this activity and we found the Court lacked a review or monitoring process.

Manual Receipts Could be Better Tracked and Monitored

Like other courts throughout the State, court staff at the locations we reviewed used manual receipts in the event that a cashiering system becomes unavailable. The Court's new PRD cashiering system has the ability to generate receipts and record activity in the event the system goes off-line; however, the Court's practice is to still complete manual receipts when the system is off-line to process transactions.

Half of the court locations reviewed employed good processes where manual receipt books were closely controlled and receipts were entered into the cashiering and case management systems immediately when systems became available. However, as shown in Table 1: *Summary of Cashiering Issues Identified*, the other four court locations could improve practices over the tracking and management of manual receipts—a repeat issue that was also identified in the November 2005 audit.

For example, at the Santa Clarita Courthouse, we noted that one receipt book had been checked out by a traffic clerk who receipted city parking checks received since June 30, 2011. Upon notification, the Court indicated that the manual receipt book had been returned. We also found that although three other court locations had a process in place to check-out and return manual receipt books and verify no receipts were missing, these court locations did not ensure all manual receipts were ultimately recorded in the Court's cashiering system and case management system. These court locations—Downey, Inglewood, and West Covina—should employ procedures practiced by other court locations we reviewed that involved attaching a copy of cashiering system-generated receipt with the manual receipt to demonstrate the receipt had been entered into the cashiering system.

Additionally, we identified several concerns with the manual receipt process at the Inglewood Courthouse requiring management's attention. The most significant issue is that nine manual receipt books were missing from the log when we did a quick check based on sequential numbering. According to staff at the Inglewood Courthouse, the Court attempted to reconcile the

issue over a year ago, but was unsuccessful. Because of the potential risk of theft associated with loose controls over manual receipt books, it is imperative that the Court investigate and resolve these issues. Other observations related to manual receipt books at Inglewood include:

- Manual receipt books were stored unsecured on a shelf in the Accounting Office; once we notified management, the receipt books were moved to a locked drawer; and
- The manual receipt book log was not complete with all fields required by the FIN Manual such as receipt numbers used. Specifically, the FIN Manual §10.01 Section 6.3.9 states that manual receipt logs should include the book(s) issued, to whom the receipt book(s) was given, the date given, the person returning the book(s), the receipt number(s) used within each book, and the date the receipt book(s) were returned.

To ensure manual receipt books are used for appropriate court-related purposes and minimize the risk of theft, the Court should ensure access to manual receipt books is restricted, manual receipt book logs contain all fields recommended by the FIN Manual, and staff ensure that manual receipts are appropriately entered into the case management systems and cashiering system.

Collections were Not Always Stored in a Secured Location

At several of the court locations reviewed, staff did not always protect undeposited cash collections as was also identified in the November 2005 audit. During the course of this audit, we noted instances at three of the eight locations as shown in Table 1: *Summary of Cashiering Issues Identified* where checks received through the mail were not endorsed the same day, mail was stored in an unsecured location, cashiers left keys in cash drawers while unattended, or daily collections were transported through public hallways while the general public was present.

For instance, at the Inglewood Courthouse, staff walked money collected through the courthouse building while the public was still in the hallways. At this same courthouse, checks received in the Civil Department were not restrictively endorsed and processed upon receipt, nor were traffic checks received through the mail, as required by the FIN Manual §10.02. These items were then stored in an unlocked closet for more than one business day. At the West Covina Courthouse, we noted two instances where court clerks left the key in their cash drawer while unattended. All of these practices put the Court's assets at greater risk of loss or theft.

Surprise Cash Counts were Not Always Conducted Quarterly

While the FIN Manual §10.02 Section 6.3.12 states that the frequency of surprise cash counts depends on a number of factors, it does suggest that cash counts be conducted "at a minimum quarterly and as frequently as monthly." At nearly all the eight court locations reviewed, the Court was either not conducting surprise cash counts at the required minimum frequency or was unable to provide documentation supporting the frequency by which the Court conducted surprise cash counts.

For example, at the East Los Angeles Courthouse, staff had not conducted a surprise cash audit since October 2010 prior to our visit in May 2012. Beginning in May 2012, the courthouse's policy is to conduct a surprise cash count semi-annually. While this protocol is a step in the right direction, it is still not frequent enough to comply with the FIN Manual. At the Downey

Courthouse, staff could only provide documentation indicating it had performed surprise cash counts in April 2011 and another in 2005. Similarly, at the Inglewood Courthouse, when the staff was unable to provide documentation indicating the date of the last cash count for the Traffic Division, staff conducted a surprise cash count while we were onsite.

While it is the Court's policy to require district courthouses to conduct surprise cash count audits semi-annually, it has not submitted its alternative procedures to the AOC for approval. To ensure the Court reduces the risk of monies being insufficiently safeguarded or stolen and complies with the FIN Manual, the Court should ensure it conducts cash count audits at least quarterly.

DMV System Access Should Be More Closely Monitored

Access to the DMV system is needed to facilitate the processing of traffic related fees and fines and to place and remove holds on drivers' licenses as well as identify prior violations. The data contained in the DMV system is considered confidential. Yet, similar to the finding reported in the prior 2005 audit, we found that access to DMV information was not sufficiently restricted and the level of access granted was not limited to only those functions necessary to perform their daily duties at seven of the eight courthouse locations we reviewed during this current 2012 audit.

For example, at the Inglewood Courthouse, 30 employees had access to DMV with 22 of those employees having the ability to update information in DMV and add or remove drivers' license holds from a driver's license. At least three employees are in bookkeeper positions that have no need to access DMV as part of their job responsibilities at the Beverly Hills, Inglewood, and Santa Clarita courthouses. At one court location, the East Los Angeles Courthouse, staff were unaware that they could generate a DMV usage report. Upon notification, the Court indicated it would begin periodically reviewing these reports. Because the eight court locations reviewed have the ability to generate DMV access and activity reports, management actively review these reports to ensure access is limited to only those staff necessary to perform their daily duties and DMV usage is appropriate. Due to the sensitive and confidential nature of data contained in the DMV database and the broad access granted by the Court, the Court should monitor all access and activity to ensure it is appropriate and court-related.

Further, although the Court is responsible for ensuring all employees with DMV access sign the 'Employee Security Statement' confidentiality agreement required by DMV and re-certify the agreement annually, only the East Los Angeles Courthouse had completed the Employee Security Statement prior to our arrival and was able to provide documentation. Five of the seven remaining locations either completed the form during the site visit or upon notification from the auditors. At the Inglewood and Downey Courthouses, management had not provided support demonstrating staff had completed the form as of August 2012—even after repeated inquiries. Further, through its Traffic Committee, the Court has provided informal directives and recommendations to district courthouse locations to review DMV usage reports, as well as ETRS user access reports, since 2006. However, the courthouses we reviewed were not in compliance with DMV usage provisions.

Recommendations

To tighten controls surrounding cash collections and the recording of case information into the Court's case management systems, as well as deter and detect potentially inappropriate or fraudulent activities, the Court should:

1. Work with the Court's Information Systems and Technology Bureau to determine the feasibility of developing fees and fines reduction reports or other ancillary reports that could be used by the Court to monitor fees and fines reductions for all case types.
2. Establish a monthly or periodic internal review process whereby an independent court employee selects a sample of case files to compare actual case file records and judicial orders with the information recorded in the Court's case management systems and PRD to ensure fees and fines reflected in the case management system match those reflected on hard case files and PRD.
3. Implement a process whereby management periodically, at least monthly, runs reports of fee waivers from the Court's case management systems and selects a sample of fee waivers from the universe to ensure the waivers were appropriately processed and authorized.
4. Ensure that all court collections are securely handled and protected throughout the process such as between the cashiers' stations and the office.
5. To the extent practical given the physical building configurations, limit practice of walking undeposited collections through court hallways while the general public is in the building to the extent possible, or develop an alternate protocol to ensure collections are better safeguarded such as providing a security escort and carrying the collections in a secure, inconspicuous container.
6. Maintain manual receipt books in a safe or securely locked drawer when not in use.
7. Compare manual receipts issued against the cashiers' transaction reports to ensure that they are properly recorded in the Court's PRD cashiering system.
8. Ensure manual receipt book logs contain all fields recommended by the FIN Manual §10.01.
9. Implement a process to conduct surprise cash count audits at least on a quarterly basis, as required by the FIN Manual §10.02. The Court should retain copies of the surprise cash counts in its records.
10. Ensure all court employees with DMV access sign the annual DMV confidentiality statement.
11. Formalize informal directives and follow the process to periodically review DMV system access reports to ensure the level of access granted is necessary to perform daily duties.
12. Implement a process to review DMV user activity reports and ensure activity is appropriate and related to court-business.

Superior Court Response

1. Agree. The ETRS Reduced Fine Deposition report and the Reimbursements for Minor's Counsel Accounts Receivable report are available for traffic and family law cases. ISTB and Operations will work together to determine the feasibility of modifying fee and payment entries for other case types that would support the generation of fee and fine reduction reports that could be used by the Court to monitor fee and fine reductions.
2. Agree in theory. The Court will investigate the feasibility of comparing collections to the various systems.
3. Agree. ISTB will send an email with the procedures for generating CIVAS/SCOT Action Code Look-up Report – 1442 that provide a list of cases where fee waiver entries were made. District administrators will be responsible for ensuring that court managers perform the monthly random audits for the courthouses in their district.
4. Agree. The Court will continue to secure collections throughout the daily process.
5. Agree. To the extent possible, the Court will continue to secure collections and ensure that the money is safeguarded. Another employee may be assigned to escort monies in public hallways, when necessary. At most locations, armored transport picks up the daily collections.
6. Agree. The Court will reinforce the need to secure manual receipt books in a safe or locking cabinet.
7. Agree. The Court will reinforce the need to ensure that manual receipts were recorded in the cashiering system.
8. Agree. The Court will reinforce the need to have the manual receipt logs filled out completely with all pertinent information.
9. Agree. The Court will reinforce to the collection areas to conduct surprise cash counts at least quarterly until the internal court procedures are submitted to the AOC for approval.
10. Agree. The Court will ensure that all Court employees with DMV access sign the annual DMV confidentiality statement.
11. Agree. ISTB will discuss at meetings and issue an email twice a year (January and July) reminding court managers/administrators and district administrators periodically review ETRS system access reports, which include DMV access, to ensure the level of access granted for each employee is necessary to perform daily duties. District administrators will be responsible for ensuring that court managers complete the reviews for the courthouses in their district.
12. Agree. ISTB will issue an email twice a year (January and July) asking court managers/administrators and district administrators to review ETRS/DMV Non-District Usage Reports to confirm that activity is appropriate and related court-business. District administrators will be responsible for ensuring that court managers complete the reviews for the courthouses in their district.

The Court will periodically conduct random audits.

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Section 2: The Court Could Strengthen Its Accounts Payable Processes

As the largest Court in the state, the Los Angeles County Superior Court spent nearly \$690 million on operational activities and equipment during Fiscal Year 2011-2012. Next to salary and benefit costs of approximately \$517 million, other significant expenditure categories relates to county services of \$31 million and services and supplies with more than \$165 million in costs over the same timeframe.

In the prior audit conducted in 2008, we conducted an in-depth assessment of the Court's expenditure and payable practices. Since that time, the Court has implemented several changes such as migrating onto the Phoenix-FI financial system, restructuring many court operations—including the closure of courthouses and courtrooms; clustering departments (traffic, criminal, civil, etc.) into fewer courthouses; centralizing contracting, purchasing, and supply management activities; and laying off nearly 10 percent, or more than 430 employees, in June 2012 alone. Moreover, the Court's procurement practices continue to be in a state of flux as management takes steps to reorganize, streamline, and modify its practices to increase efficiency and better comply with the newly adopted Judicial Branch Contracting Manual. Given that the prior payable process had been tested as part of the 2008 audit and that existing payable rules and practices will be modified as part of the Court's procurement reengineering, efforts on this current audit focused on a review of high level controls for a limited number of expenditures and payable transactions recorded in Fiscal Year 2011-2012.

This audit revealed that the Court generally utilizes some good practices over its accounts payable functions, including using the control features embedded within Phoenix-FI to ensure all the necessary approvals take place and conflicting duties are appropriately segregated. However, we identified several areas in which the Court can strengthen controls related to support for expenditures.

Court Approved and Paid Unallowable or Unsupported Travel Expenses

Given that the Court spends nearly \$550,000 annually on travel, the Court should ensure it follows the FIN Manual requirements and uses court resources in the most efficient manner. Of the 20 travel expense claims and mileage claims reviewed, the Court approved and paid unallowable or unsupported expenses for eight, or forty percent, of the 20 travel claims tested. As discussed below, we identified instances where, mileage was calculated and reimbursed in a manner that conflicted with FIN Manual requirements which corresponds to Internal Revenue Service guidelines.

✓ *Court Approved Mileage Claims That Did Not Comply with the FIN Manual*

While the ten mileage claims we reviewed contained sufficient detail, the amounts claimed were not accurate.

- *Mileage Calculated from the Wrong Point of Origin:* Three of the 10 mileage claims tested had incorrect mileage calculations. FIN Manual §8.03 6.3.2(2)(b) requires that when travel commences from the traveler's home, the reimbursed mileage will be calculated from the traveler's designated headquarters or home,

whichever results in the lesser distance, to the business destination. Although court headquarters was closer to the traveler's business destination, mileage was paid from the home address resulting in the claimant receiving a greater mileage reimbursement than allowed by the FIN Manual.

- *Mileage Incorrectly Reimbursed For Destinations a Shorter Distance than Headquarters:* FIN Manual §8.03 6.3.2(2)(b) states, "If the first or last business destination is closer to home than the regular place of work, no mileage reimbursement will be allowed." This means, that if an employee travels a distance less than their original commute to headquarters, then the employee may not claim mileage for the trip. However, we found four of the 10 mileage claims were inappropriately paid by the Court even though the business destination was a shorter distance than headquarters and, thus, should not have been reimbursed.

We also noted another instance, where the traveler claimed mileage from their home to a business destination, then to headquarters, and then made an additional business stop on their way home. As a result, the traveler claimed mileage for their entire commute. Yet, the Court should not have reimbursed the entire trip, since the business destination was a shorter distance than headquarters and was in-route to headquarters.

The Court has adopted the Los Angeles County Travel policy and practices because reimbursements are made through the County payroll system. The Court has memorialized the policy in its "Los Angeles Superior Court Mileage Process," but has not submitted those procedures to the AOC for approval as required in the Introduction of the FIN Manual. While county policy allows the Court to reimburse court employees for travel costs, the FIN Manual is more restrictive with its allowable mileage provisions. Because the Court processes such a large volume of claims, the Court should implement a risk-based approach for reviewing travel and mileage claims to better ensure accuracy of payment. For example, if a large portion of mileage claims submitted are from court investigators; the Court should conduct a more thorough review of these mileage claims since they pose a greater risk to the Court.

Review of Court Reporter and Interpreter Claims Should be Enhanced

Based on our review of 10 court interpreter and 9 court reporter claims, we found that the Court approved claims that were not always sufficiently supported and did not always thoroughly review claims prior to approving payment.

✓ *Interpreter Claims were not Always Supported:*

The Court's Interpreter Services Division processes court interpreter payments for all districts. Our review noted that overall the Court has strong controls in place over verifying and processing payments related to courtroom interpreters. However, our review found that 3 of the 19 court interpreter and court reporter claims were not supported by a Judicial Assistant "Daily Activity Log." Specifically, for three of the ten interpreter claims submitted, the Judicial Assistant "Daily Activity Log" was not signed for all of the days claimed to confirm the interpreter's appearance as required.

According to the Court, prior to processing the claims for payment, the Court verified the interpreter was scheduled on the day invoiced. While it is likely the interpreter appeared and the expense was reasonable, the Court should ensure interpreters follow the Court's policy requiring a copy of the signed log to be provided with every claim submitted for payment.

✓ ***Reporter Claims were Not Always Thoroughly Reviewed:***

Overall, we found that the Court's procedures for verifying and processing court reporter transcript payments appear sound. Although the Court paid the appropriate rate per folio for court reporter transcripts, in none of the 9 transcripts payment we selected for testing did, the Court verify the number of words recorded on the payment claim submitted by the reporter. While Government Code §69950 requires payments for court transcript claims be based on a fixed fee per 100-word (folio) basis, the Court uses a reasonability test where it applies a multiplier of 2.58 folios per page with a maximum reimbursement of \$2.55 per page for the original and \$0.45 per page for copies—resulting in payment of \$3.00 per page for an original plus one copy. According to the Court, this methodology was developed to reduce backlogged claims and increase efficiency in processing payments given the volume of transactions. Yet, while this multiplier was based on an internal study conducted approximately a decade ago and approved by court operational and judicial management, it does not comply with statute.

In one instance, the Court paid a court reporter's claim for \$8,610 where each page of a 2,870 page civil transcript was reported to have three folios (300 words) thus, paying the reporter the maximum allowed by the Court of \$3.00 per page. According to the Director of Legal/Support Services, transcript pages typically consist of 230 to 300 words each and it is unlikely that every page in a transcript would reach 300 words. Therefore, if the actual word count was 250 words per page, charges for this transcript would be only \$2.50 a page, or .50 cents less than charged, for a more accurate cost of \$7,175—a savings of \$1,435. Given that a defendant was responsible for paying the transcript fees, not the Court, an appropriate review of transcripts is needed to ensure parties are not overcharged. According to the Court, it follows a process to investigate any reporter complaints and has taken disciplinary actions in the past as necessary. While this helps mitigate some potential inaccuracies, the Court could also assess the feasibility of conducting spot-checks or word-count verifications for transcripts or requiring court reporters to provide a system-generated summary of words and pages for each transcript provided.

Recommendations

To ensure the Court consistently follows FIN Manual guidelines and sound business practices when processing expenditures, the Court should:

13. Verify that interpreters submit a log signed by the Judicial Assistant for all days claimed prior to the Court processing the claim for payment.

14. Implement a process to verify the number of folios reported by Court Reporters and ensure Court Reporters submit a copy of the Notice to Prepare Transcripts prior to processing Court Reporter Transcript claims, or submit an alternative procedure to AOC for approval.

Superior Court Response

13. Agree. The Court will verify that interpreters submit a log signed by the Judicial Assistant for all days claimed prior to the Court processing the claim for payment.
14. Agree in theory. The Court will not be able to implement this recommendation since it would be very labor intensive and we lack the staffing to count words for every transcript submitted. We will submit our current procedures to the AOC for approval.

Section 3: While the Court Employed Many Good Procurement Practices, Protocols Could be Enhanced to Better Protect Court Interests

With the diversity and broad geographic dispersion of the Court's 47 courthouses, the maintenance of controls and the consistent application of procurement policies and procedures can be difficult. Nonetheless, it is essential to establish a strong control environment by managing and minimizing financial risks, formalizing transaction protocols, and communicating staff roles and responsibilities by way of established written policies and holding them accountable by separating incompatible functions.

To assist courts in establishing the strongest control environment possible, the Judicial Council of California has set a goal for all of California's trial courts to conform to certain generally accepted good business practices as appropriate to governmental agencies and as identified in the Trial Court Financial Policies and Procedures Manual (FIN Manual), 7th Edition. While the FIN Manual §7.0 which governed contracting requirements was in effect for most of the audit period, this section was superseded by the Judicial Branch Contracting Manual (JBCM) effective October 1, 2011. The JBCM has been updated several times since then, with the most recent version effective August 31, 2012.

As a result, the Court is in the midst of dramatically changing its processes to be JBCM compliant. For instance, in July 2012, the Court centralized its procurement and contracting functions and restructured its procurement resources from 13 District Financial Analysts spread across the various districts to four District Financial Analysts working centrally under the direction of the Chief Procurement Officer at the Stanley Mosk Central Courthouse. Over the last few months, the Contracts and Supply Management Division has been assessing where change is needed to promote JBCM compliance and where changes may be costly or problematic. As part of this audit, we identified several opportunities for improvement, such as developing a Local Branch Contracting Manual, increasing the consistency with which the Court utilizes purchase orders, enhancing conflict of interest provisions, incorporating additional detail into Court agreements with the County, and continuing to implement mandatory provisions in the JBCM.

Although much of the Court's procurement process was in flux during our audit period and is likely to change in the near future, we performed a limited review of procurements made during the most recent fiscal year completed (2011-2012) at seven of the courthouses visited and those procurements performed centrally at the Stanley Mosk Courthouse. Our review noted overall consistency amongst the seven outlying court locations and central location. For example, all locations utilize the Phoenix-FI financial system to generate purchase orders and encumber funds; however, we did note a few isolated instances where court staff did not always follow established court practices to use purchase orders and encumber funds.

Additionally, the Court uses other procurement vehicles particularly when securing county-provided services including Memoranda of Understanding (MOUs) and Department Service Orders (DSOs). While the 23 MOUs include the requisite contractual elements, we noted that the DSOs continue to lack the necessary provisions designed to protect the Court's interest—an issue previously reported in the IAS's 2008 audit.

Court Complies with Significant Provisions of the JBCM

Since IAS's 2008 audit of the Los Angeles Superior Court, the Court has undergone two significant changes in the way it procures goods and services—the transition to Phoenix-FI and the centralization of most purchasing activities in response to the JBCM. During this audit, we found that the Court's centralization activities were ongoing, as were its efforts to establish processes to ensure compliance with the JBCM. Given the size of the Court and the complexity of its purchasing and contracting practices, we found that the Court has made reasonable progress to ensure compliance, and that the Court's efforts were ongoing through the course of this audit. Nonetheless, we identified several areas that will require the Court's attention.

Prior to 2009, the Court maintained a procurement function that was partially decentralized and partially centralized. According to management, each of the Court's 12 districts had independent budget authority and were able to procure goods and services as deemed necessary. Each employed staff that were assigned purchasing responsibilities including initiating and approving requisitions, creating purchase orders, receiving goods and services, and processing invoices. By Fiscal Year 2011, the Court employed approximately 60 individuals that were involved in these procurement activities. While the Court decentralized the authority of districts and certain divisions, to make purchasing decisions within budgetary constraints, Court management developed centralized processes to facilitate the development of the contracts and purchase orders used by decentralized districts and divisions. Specifically,

- **If County Has A Contract In Place for the Good or Service:**
The Court's formal policy is to use County-developed contracts whenever practical. In Fiscal Year 2011, according to the Court, piggybacking on County contracts comprised approximately 83 percent of the Court's purchasing activity.
- **If County Does Not Have A Contract in Place for the Good or Service:**
In those cases where the Court must procure goods or services for which the County does not have a contract, the Court established three processes through which it may procure needed goods or services. According to court management:
 - Purchases valued at more than \$100,000: The Court created a small Contract Administration Unit to administer court-created contracts that generally exceed \$100,000, as well as many Inter-Governmental Agreements.
 - Purchases valued between \$15,000 and \$100,000: Court districts or divisions must utilize the County's Internal Services Department buyers when making purchases valued between \$15,000 and \$100,000. In doing so, the Court subjects its purchasing decisions to the internal controls of the County for development of Requests for Quotes or Bids, advertisement of the solicitation documents, and evaluation of bids among other activities.
 - Purchases valued under \$15,000: Districts were authorized to issue purchase orders for goods and services valued at less than \$15,000; these purchases were generally executed without the purview of central court administration as long as they were within the Court's budget authority.

This reliance on County contracts for the bulk of court purchases appears to be an efficient model for several reasons. In addition to the County procedures allowing for competition in the procurement process, they also required many social responsibility provisions in solicitations, including requiring good faith efforts by proposers to include minority and small business enterprise participation. Further, using County contracts enabled the Court to benefit from the economies of scale achieved by the County.

The Court's transition to Phoenix-FI required the Court to automate its purchasing activities through the Phoenix-FI procurement module. While purchasing authority remained decentralized at the districts, greater consistency was achieved by requiring all districts to initiate requisitions, develop purchase orders, document the receipt of goods and services, process invoices, and record all authorizations through the AOC's centralized procurement module in Phoenix-FI. According to the Court, purchase orders are created for all purchases made against county contracts, court contracts, and all other purchases with the exception of the County services provided under Memorandums of Understanding or Department Service Orders.

When the JBCM became effective in October 2011, the Court initiated a robust self-assessment of its compliance with the manual as it existed at the time. Despite generally strong controls over purchasing and contracting activities already employed by the Court—processes that promote fair, open, and equal competition—the Court realized that in each of the key areas covered by the JBCM there were requirements with which the Court did not strictly adhere to. According to management, it further recognized that the fiscal constraints faced by the Court would require layoffs and some administrative restructuring. Both factors—the adoption of the JBCM and significant budgetary constraints—led Court management to conclude that the centralization of purchasing activities was a necessary first step toward implementing the JBCM and toward achieving the increased efficiencies needed with fewer resources. The Court completed the most significant aspect of the centralization—moving most decentralized contracting, purchasing, and supply management activities under a new Contracts and Supply Management Division—in June 2012.

Between October 2011 and August 2012, the JBCM had undergone several revisions, with the most recent issued toward the end of audit fieldwork on August 31, 2012. As part of this audit, we assessed the Court's existing internal controls and processes to determine whether they were sufficient, and followed to reasonably ensure compliance with the JBCM. Overall, we found that the Court's purchasing and contracting activities ensure fair, open, and equal competition, and that the Court generally complied with many core provisions of the JBCM. Yet, the JBCM contains numerous standards against which the Court does not adhere, and which the Court does not yet have protocols in place to ensure compliance. Below is a general description of some of the core provisions of the JBCM that require the Court's attention.

- **Local Branch Contracting Manual (Chapter 1 (1.2)).**

While the Court has established a formal policy adopting the County procurement manual, the Court has not yet developed a Local Branch Contracting Manual. Once its reorganization and business process reengineering is complete. The Court will memorialize its new processes.

- **Define the roles and authority of purchasing officials (JBCM, Chapter 1).**

The Court has established a Chief Procurement Officer, buyers, and a “payment officer” as well as a segregated receiving function. However, some aspects of the Court’s purchasing activity are still outside the purview of the Chief Procurement Officer; specifically, IT purchases occur within the Information Services and Technology Bureau without oversight of the Chief Procurement Officer. Similarly, according to the Court, DSO agreements initiated and executed by districts, and payments processed by Special Services Department, such as law books, and court ordered services are not reviewed and approved by the Chief Procurement Officer to ensure they comply with JBCM requirements. Because of this, the Court is at increased risk that future purchasing activity may be inconsistent with the JBCM and may go undetected by the Chief Procurement Officer and Court management.

- **Adequate procurement planning.**

Our testing of contracts and purchase orders did not identify any instances in which the agreement did not include an adequate scope of work or did not undergo adequate competition, when required; we also found that purchase order and contract files contained sufficient documentation to allow us to assess the decisions and actions taken during the procurement as required by the JBCM. Overall, the Court has implemented sound protocols regarding these areas.

Yet, the Court does not appear to have adequate controls to ensure it complies with JBCM reporting standards that require all procurements exceeding \$1 million must be reported to the California State Auditor and all administrative and infrastructure IT projects with an estimated cost of more than \$5 million must be reported to the California Technology Agency. Few court contracts reach the \$1 million threshold—only 3 contracts and three purchase orders issued against county contracts. We found the 3 contracts were reported to the BSA, while the three “piggybacked” purchase orders appear to not have been reported as required. Since the Chief Procurement Officer does not exercise oversight of IT purchases, it is unclear whether Court management can be reasonably assured that large-scale implementation projects will be identified and reported to the California Technology Agency in a timely manner. However, after discussions with the Chief Information Officer, it appears that there are no projects since 2009 that should have been reported.

- **Specific socioeconomic and environmental programs (JBCM, Chapter 3).**

Specifically the JBCM seeks to ensure (a) participation of Disabled Veteran Business Enterprises (PCC 10115.1); (b) accessible facilities and reasonable accommodations pursuant to the Americans with Disabilities Act (ADA), and (c) purchasing that reflecting sustainability policies, particularly by ensuring 50 percent of certain types of goods and services are recycled products While the Court partially complies with the provisions in JBCM Chapter 3, additional steps are necessary to ensure full compliance.

- While the Court has an Americans with Disabilities Act Coordinator (ADA), the Court does not incorporate ADA provisions in its solicitation documents,

informing prospective bidders that if a need exists the Court will make reasonable accommodations to best ensure equal competition, as required in the JBCM.

- Similarly, the Court incorporates socioeconomic and environmental programs into most of its purchasing decisions such as requirements for the inclusion of Minority, Women, and Small Business Enterprises in County contract solicitations. The Court, however, currently does not ensure participation of Disabled Veteran Business Enterprises (DVBE). According to the Court, it is still in deliberations regarding the course of action it will take to ensure compliance with DVBE requirements as the County does not incorporate DVBE provisions into its solicitation documents, the County does not. Further, the Court does not track the percentage of procurement dollars that are directed to DVBEs as required by the JBCM, nor has it determined how it will incorporate this requirement into its procurement activities.

- **Conduct competitive procurements in a manner that promotes open, fair, and equal competition” for all purchases exceeding \$5,000, with few exceptions (JBCM, Chapter 4, (4.1)(A)) and (JBCM 4.4(C)).**

The Court generally follows procedures that ensure competition, including informally requiring purchasing staff to seek informal quotes if the purchase is between \$500 and \$5,000, and requiring bids if over \$5,000; the Court also requires advertising of Requests for Proposals and Requests for Bids for all purchases over \$10,000 on the County’s ISD website. However, when developing its Local Branch Contracting Manual, the Court will need to devise procedures to ensure full compliance with contracting laws such as identifying “scrutinized companies” as defined in PCC 10490(b) as well as provisions relating to the Darfur Contracting Act (PCC 10475) and the Iran Contracting Act (PCC 2201), for all of its procurements.

- **Formal process to receive and hear protests of its awarding decisions (JBCM, Ch. 7).**

According to the Court, protests would generally be reviewed by the County, as most of the Court’s purchasing activity is made against the County’s contracts. All court contracts over \$100,000 are subject to court protest procedures; while court purchases between \$15,000 and \$100,000 are subject to County competitive procedures that incorporate protest procedures. However, according to the Court, purchases under \$15,000 that were administered by the districts in the past were not always subjected to formal protest procedures; the Court has indicated that all such purchases will be subjected to formal protest procedures now that purchasing activity has been centralized.

- **Contracts must be in writing and must contain minimum terms and conditions (JBCM, Chapter 8).**

With the exception of DSO’s, we noted that all contracts were written and included terms and conditions that reflect the Court’s existing requirements. However, in the future, additional provisions will need to be incorporated such as those previously noted involving scrutinized companies and Iran and Darfur contracting acts, as well as others. For example, the JBCM Chapter 8 requires that MOUs over \$10,000 contain a Bureau of State Audits audit provision. None of the nine MOUs reviewed specifically included this

provision, but they did contain broad sweeping audit clauses allowing state and federal audits. Importantly, the JBCM (Chapter 8) also requires that MOUs and contracts contain a “budget contingency provision” unless the contract included the right for the Court to terminate the agreement for convenience. Our review found that one of the MOUs did not contain this required provision.

By hiring a Chief Procurement Officer and centralized Purchasing and Supply Management Division, the Court created a management oversight position responsible for purchasing decisions and JBCM compliance. The Court also recognizes the need to take additional steps to implement controls to address JBCM requirements. Given the size and complexity of the Court’s contracting and procurement operations, it will take some time for the Court to achieve full compliance with the JBCM. Therefore, we believe it is prudent for the Court to establish a documented plan outlining the steps it will take, and associated deadlines, to address JBCM requirements.

Certain Procurement Practices Need to be Strengthened and Reinforced

With more than \$690 million spent in Fiscal Year 2011-2012 on operating expenses ranging from office supplies to courtroom support and minor facilities improvements, the Court generally “piggybacked” off master agreements that were competitively procured by the Court, County, or Administrative Office of the Courts—thus, eliminating the need for the Court to employ additional competitive methods to complete procurements. Other court purchases made outside of these vehicles were generally less than \$5,000 and not necessarily required to be competitively bid.

Although the Court is restructuring its procurement practices, the Court currently demonstrates several good controls and procurement processes at the seven court locations and Stanley Mosk Courthouse where practices were reviewed. For example, we found that incompatible procurement and accounts payable duties were appropriately segregated, court locations had established authorization matrices with purchase thresholds, and court established processes, when followed, provided sufficient internal controls. However, we also found isolated instances where the outlying court locations did not always follow established practice related to purchase orders and encumbrances. Specifically, for 7 of the 47 vendor expenses reviewed or 15 percent, the Court did not always issue a purchase order prior to processing a good or service. Additionally, we found opportunities where the Court could streamline processes and more fully embrace available procurements tools as summarized in Table 2 *Number of Instances Where Procurement and Contracting Issues Were Identified*.

Table 2. *Number of Instance Where Procurement and Contracting Issues Were Identified*

| Court Name | Court Did not Always Issue or Approve a P.O. prior to Procuring a Good or Service |
|----------------------------------|---|
| Beverly Hills | |
| Downey | 1 |
| East Los Angeles | |
| Glendale | 1 |
| San Pedro | 1 |
| Santa Clarita | |
| West Covina | 1 |
| Stanley Mosk Central Procurement | 2 |
| Totals | 6 |

Note: We did not review procurement and accounts payable activities at Inglewood courthouse because these functions were performed by their District Branch.

Some Courthouses Did Not Generate or Approve a Purchase Order Prior to Procuring a Good or Service

The Court demonstrated generally controls effectively and procurement processes at the seven court locations and Stanley Mosk Courthouse where practices were reviewed. However, we found that four of the eight locations reviewed, including Stanley Mosk, did not always follow established procedures related to purchase orders. Specifically, in 6 of the 47 purchases reviewed, the Court issued the purchase order after the good was ordered or services rendered. While the Court's normal process would be to generate a requisition request, receive approval, select a vendor, and create an approved purchase order all in Phoenix-FI prior to purchasing a good or service, this process was not followed in these instances. Rather, these goods and services were either procured outside of the Phoenix-FI system and then entered into Phoenix-FI at a later date, or the purchase order was not approved until after the good or service was received. For instance, we found the following:

- In one case, a vendor at the West Covina Courthouse provided approximately \$32,000 in file shelving product and installation services on May 16, 2012 to the Court. Although the Court generated a purchase order on April 26, 2012, the Court did not approve a purchase order authorizing the services until May 17, 2012—the day after services were provided. According to the Court, the delay in the purchase order authorization was a court oversight. Yet, if the established process is not followed and inadvertent oversights can occur without management's knowledge, it opens the Court to the risk of incurring unallowable or unauthorized expenses. In another example at the San Pedro Courthouse,

the Court procured keys from a vendor on March 1, 2012 even though staff did not submit a procurement request form for the purchase or receive approval until March 9, 2012.

- Similarly, the Glendale Courthouse received shredding services prior to initiating a purchase order in Phoenix-FI. The Court received the services in September 2009, and then entered the requisition, created a purchase order, recorded the good receipt, and processed the invoice for payment in Phoenix-FI in October 2009—a month after the services were rendered.
- At the Stanley Mosk Courthouse, we found that the Court did not follow its established procedure for two of the 11 purchases reviewed. In both cases, we found that the Court created the purchase order after the services were rendered and the invoices received.

Both the FIN Manual and JBCM require contracts to be in writing and to be properly approved by court managers; purchasing goods or services without prior authorization and a written agreement is not compliant with these principles.

Procurement Activities Could be Enhanced to Increase Efficiency and Better Protect the Court's Assets

- ✓ *Broader Application of the Court's Conflict of Interest Code Would Better Reflect Staff Influence Over Court Expenditures:*

In accordance with statutory requirements, the Court has developed a conflict of interest code that identifies specific officials and court positions that must file a Statement of Economic Interests (Form 700) and has developed an adequate process to ensure these required classifications submit Form 700 annually. Specifically, our review of ten court employees whose classification was required to submit Form 700 found that all employees appropriately and timely submitted their individual Form 700 to the Court. However, we identified a Procurement Technician classification that should have been identified by the Court to, as required, submit Form 700, or some other mechanism to disclose potential conflicts, but was not. The Court employed four Procurement Technicians as of November 2012.

The Court, however, feels the position is low risk since most of the Court's procurements use county agreements and the County's professional certified buyers have to sign off on the procurements; thus, this position does not need to complete the Form 700. Further, every court employee is required to complete a Conflict of Interest/Outside Employment form. Yet, this form only pertains to potential conflicts resulting from employment outside the court and would not cover personal financial interests or relationships. Individuals within this classification are often in situations where they influence, or participate in the making of, decisions that could have a material effect on a financial interest of that individual. While it is true that these technical positions only have control over "non-agreement" county contracts that are relatively small in nature, they do still possess the ability to influence a significant volume of transactions and thus should disclose personal financial interests and relationships by completing a Form 700 or by

filling out some other type of conflict of interest form. This change would only affect four buyers currently filling those positions.

California law prohibits public officials at any level of state or local government from making or influencing governmental decisions in which he or she may have a financial interest (GC 87100 et seq.). Statute also requires that public agencies “adopt and promulgate a Conflict of Interest Code” (GC 87300), and that such a code be “formulated at the most decentralized level possible” (GC 87301). This code must identify the positions or position classifications within the agency that may involve decision making that could “have a material effect on any financial interest” for the individual (GC 87302) and have each position identified file a Statement of Economic Interest (Form 700).

✓ *Court Could Benefit from Increased Use of Contract and Blanket Purchase Orders:*

Prior to the centralization of procurement activities in July 2012, all court locations, except the Stanley Mosk Courthouse, only used standard purchase orders. According to staff at the seven district locations reviewed, staff had not received training in Phoenix-FI on how to use any other available purchase order options. According to the Chief Procurement Officer, district staff did not receive this training in an effort to simplify budget and accounting processes.

Blanket and contract purchase orders can increase efficiency for the purchasers of goods and services by decreasing the administrative costs associated with purchasing. The FIN Manual §6.01 6.12 that was in place during our audit explains, “Blanket purchase orders (BPOs) may be used to streamline the process of filling repetitive needs for goods and services. A BPO may be established if there is a broad class of goods that is purchased (e.g., office supplies) but the exact items, quantities, and delivery requirements are not known, and/or the administrative cost of issuing numerous purchase orders can be avoided through the use of this one-time procedure.” According to Phoenix-FI guidance, contract purchase orders are used “to encumber funds and facilitate payment when a legal contract written agreement exists between the court and the vendor.” Unlike standard purchase orders, contract purchase orders allow the Court to record multiple goods or services receipts in Phoenix-FI, rather than requiring the entire purchase order to be receipted to make a payment.

Although the Court indicated the Stanley Mosk Courthouse has been using blanket and contract purchase orders for approximately four years, we found that the Court’s use of these is inconsistent with the intent and purpose of each type. For example, the Court used a standard purchase orders to pay a fixed monthly amount for a 24-month vehicle lease and a blanket purchase order to pay for wireless voice and data services instead of utilizing the more appropriate contract purchase order. In another example, the Court used a standard purchase order to pay for transcript photocopying services for Fiscal Year 2011-2012 for one division and a blanket purchase order to pay for the same service, under the same Master Agreement, for a different division. In order to ensure the Court is using the most efficient type of purchase order for each purchase in a consistent manner, the Court should train its purchasing staff on when and how to use the various purchase order options available to the Court.

Court-County Agreements Could be Enhanced to Better Protect the Courts Interest and Ensure Compliance with JBCM Contracting Requirements

As reported in prior audits, the Los Angeles County Superior Court and Los Angeles County have several agreements in place that govern the exchange of services and monies between the two entities including Memoranda of Understanding and Departmental Service Orders. As of Fiscal Year 2011-2012, the Court procured County services through 161 DSOs with twelve separate departments—totaling more than \$26 million. These DSOs fall within the parameters of a “Contract for Services” established between the Court and the County that went into effect on July 1, 1999. The one-page contract established that the County would continue to bill the Court for its services “at rates that do not exceed the costs of providing similar services to county departments or special districts” and also allows the Court to request additional services from the County. The Court uses a DSO form and accompanying cover letter that are to include “(A) the county department from which the services are requested; (B) the scope of services to be provided [and] the method of service delivery; and (C) the anticipated service outcomes.”

| Costs of County-Provided Services FY 2011-2012 (in thousands) | |
|---|-----------------|
| Administrative | \$ 2.844 |
| Internal Services | \$13.767 |
| Human Resources | \$.506 |
| Probation Department | \$.339 |
| Substance Abuse Control | \$.019 |
| District Attorney | \$.464 |
| Sheriff | \$ 8.201 |
| <u>Public Defender</u> | <u>\$.118</u> |
| Total | \$26.386 |
| <small>Note 1: Includes Auditor-Controller and Chief Executive Office costs.</small> | |
| <small>Note 2: Includes Public Works, Treasurer-Tax Collector, Board of Supervisors</small> | |

However, as also noted in the 2005 and 2008 audits issued by the AOC Internal Audit Services, the DSO documents continue to lack key provisions required to protect the Court’s interests such as clear scopes of work for each service provided and detailed cost information for each, and related methodologies used to determine costs are clearly defined in the agreement.

Despite the Court’s response to both audits that it would develop agreements to include all necessary and available information, current DSOs continue to lack necessary provisions designed to protect the Court’s interests. Our review of 161 DSOs identified that the cover letters did not always include details such as a schedule of work, pricing and payment information, and terms and conditions, as required. In fact, only one of the 161 DSOs reviewed contained terms and conditions, which are a required contact element.

While the Court has made progress by developing descriptions of scope that correspond to most DSOs, these descriptions are not actually incorporated into a formal agreement. Moreover, while county officials sign the DSOs and the Court incorporates them into its budgetary process, the Court does not actually sign them. Therefore, further adjustments are necessary to ensure the Court is in compliance with JBCM and GC § 77212(d) contracting requirements. Insufficiently detailed, informal agreements diminish the Court’s ability to ensure that it receives what it is paying for, that the rates charged are competitive and comport with agreed upon charges, and that needed services are provided in a timely manner and with the desired quality. However, the Court is challenged in its ability to convince the County to change its court MOU and billing

practices or to incorporate legal terms and conditions. Currently the Court continues to have a good working relationship with the County and is receiving services as requested.

Yet, as of October 1, 2011, the JBCM requires all contracts—including MOUs and DSOs—to incorporate critical information including (1) the contracting parties, (2) pricing and payment information, (3) a statement of work, and (4) certain terms and conditions. Each major element must be clearly defined to ensure both parties' have a clear understanding of contract deliverables, roles and responsibilities, and expectations. Similarly, California Government Code (GC) § 77212(d)—specifically addressing court-county agreements—requires that contracts identify the scope of service, method of service delivery, term of agreement, anticipated service outcomes, and the cost of the service.

As such, the Court should consider alternate procedures to review and revise existing DSO and MOU agreements to include adequate cost, schedule, scope of work, terms and conditions, and billing process information by exhibit or other reference.

Recommendations

To ensure that the Court's processes over procurement appropriately safeguard assets, afford accurate and timely recording and reporting, and protect the best interests of the Court and State, the Court should:

15. Continue to implement measures to ensure compliance with the JBCM, which should include a discussion of the processes the Court will employ to comply with all mandatory JBCM requirements, including those relating to the roles and authority of personnel involved in the purchasing, contracting, receiving, payable processing, and contract administration activities exercised by the Court.
16. Establish a documented plan outlining steps to be taken to comply with the JBCM, including associated deadlines.
17. Ensure that formal purchasing processes are consistently followed and that purchase orders are issued prior to procuring goods or services.
18. Cease paper tracking processes and rely fully on the controls in Phoenix-FI for procurement activities, which satisfy the applicable FIN Manual and JBCM requirements.
19. Train its purchasing staff on when and how to use the various purchase order options available to the Court in Phoenix-FI.
20. Update its Conflict of Interest provisions to designate Procurement Technicians classification as a required employee to complete a Form 700, or other alternate document allowing the disclosure of personal financial interests and relationships.
21. Review and revise existing DSO and MOU agreements as appropriate to include adequate cost, schedule, scope of work, terms and conditions, and billing processes, as required by the JBCM and GC § 77212(d).

Superior Court Response

15. Agree. The Court will continue to implement all measures of the JBCM as well as develop an authority matrix that will identify personnel involved in the purchasing, contracting, receiving payable processing, and contract administration activities exercised by the Court.
16. Agree. The Court has established an implementation plan in response to this recommendation to ensure the creation and full implementation of the Court's Local Branch Contracting Manual (LBCM). Through the creation and implementation of the LBCM, the JBCM requirements and associated deadlines will be addressed.
17. Agree. The Court agrees and will ensure that formal purchasing processes are consistently followed and that purchase orders are issued prior to procuring goods and services. This will be done through consistent training of best practices for purchasing staff and seeking further consolidation of purchasing agents under one administration.
18. Agree. The Court agrees with the recommendation and will ensure that all paper tracking processes will be eliminated as a means of seeking purchasing approval from managers as a substitution for using the Phoenix-FI for procurement activities.
19. Agree. As part of the continuing efforts of the Court to ensure compliance with the JBCM, the Chief Procurement Officer will ensure that staff involved in procuring goods and services will have the proper training to consistently apply appropriate purchase order methodologies.
20. Agree in theory. The Court will take this recommendation under advisement. Beginning in March 2013, the Director of Human Resources and Court Counsel will review all classifications that have been identified to complete a Form 700. During this review, the matter of adding the Procurement Technician classification will be considered. If the Court determines that the Procurement Technician classification should complete a Form 700, then this process will be completed in May 2013.
21. Agree. The Court, under advisement of Court Counsel, will work to create a supplement attachment for DSO's that identifies the scope of work, method delivery, anticipated results and billing processes. The attachment would require the signatures of both parties to the agreement.

Section 4: The Court Should Continue Efforts to Reconcile its Funds Held in Trust and Escheat or Refund Stale Monies

With more than \$300 million in funds held in trust for others in Fiscal Year 2011-2012, the appropriate management and protection of such large fund balances is an enormous responsibility for the Los Angeles County Superior Court as part of its fiduciary role over the funds. Currently, these funds are overseen by a competent fiscal unit at the Central district responsible for the oversight of thousands of transactions processed through the Court's many automated case management, cashiering, and fiscal systems. The vast quantity of fees and fines collections, forfeiture payments, and trust deposits and disbursements in addition to the general operational transactions require daily and constant communication between court districts and the centralized Revenue Management Unit to ensure a smooth flow of these transactions.

Similar to the results described in the 2008 audit report, we identified several reoccurring areas that continue to pose a risk to the Court including the inventory of inactive or stale trust cases that need to be researched to close, refund, or escheat trust monies. However, since the prior audit, the Court has developed an escheatment "program" and has a plan addressing stale monies and inactive or closed cases for the UC5 fund holding Court Reporter Transcript trust monies. In fact, the Court has started escheating stale civil trust monies with more than \$2.2 million escheated or potentially eligible for escheatment as of October 2012. While the Court has made great progress, there is still nearly \$250 million in trust—primarily in the Condemnation and Interpleader Fund that contains deposits from as early as the 1970s. As such, the Court should continue researching to either validate the cases as still active or to identify stale trust or fee deposits on closed cases for escheatment.

We also found that the Court is still unable to fully reconcile trust funds between its case management systems, fiscal records, and bank accounts—although we found the Court is actively reconciling daily activity between the cashiering systems and bank accounts. Yet, many of the Court's trust accounts have some historical unreconciled discrepancies between the cashiering system and bank accounts. Many of the "out of balance" amounts have remained constant for several years, and the Court is actively trying to resolve the discrepancies. As illustrated in Table 3, "*Unresolved Trust Fund Discrepancies by Account*," several of the Court's individual account balances are unreconciled with a net overage of \$283,550 as of July 2012 where the system balance is lower than the bank balance. According to the Court, it has subsequently received approval from the County Auditor-Controller to net the variances prior to 2006 and transfer them to a separate account.

Court has made Progress on Escheating Old Cases, but More Work is Needed

The Court manages its funds held in trust through a series of separate funds. With a \$233 million balance, the Condemnation and Interpleader Trust Funds SK4 and SK5 are the most significant. Prior to the 1970s, the "Condemnation & Interpleader" (C&I) Trust Fund SK4 was established as an interest bearing trust fund. The County "budgeted" the interest amount as part of its expenses to be paid when the principal became due under a court order. In Fiscal Year 1977-1978, the County changed its methodology and began calculating interest and allocating

interest on a quarterly basis to the separate C&I Trust Interest Fund SK5. After more than 10 years of allocating interest to Fund SK5, the County removed approximately \$6 million in 1990 and another \$4 million in 1993 from Fund SK5 using the rationale that interest residing in that fund included a portion assigned to principal trust balances in Fund SK4 as well as a portion earned on overall fund balances on deposit with the County Treasury in its investment pool. Per the Court, the County still remains responsible for interest calculated and disbursed as accounts are liquidated.

While most of the principal balance in Fund SK4 according to fiscal records agreed with amounts and cases maintained in the AS400 system, the Court cannot easily reconcile the amounts with the various case management systems used to track C&I cases. Since the fund also contains old or stale deposits that need to be researched and possibly escheated, significant court resources are needed to research these balances. These ultimate implications, from both a staffing resource perspective and a financial balance position related to the large sums being transferred, require the Court and the County to closely work together towards a solution that is acceptable for both entities and adequately accounts for all monies the Court and County hold in a fiduciary capacity. As such, the Court has not made a lot of progress towards escheatment in this area—although more than 500 cases totaling approximately \$1.1 million have been researched as potentially eligible for escheatment to date.

In addition to the current condemnation and interpleader funds, the Court holds fiduciary money in several other trust funds as follows:

- UC 5 – Court Reporter Transcripts
- S3D – Former Superior Court Trust
- SK6 – Former Condemnation and Interpleader Trust
- SK7 – Interest on Former Condemnation and Interpleader Trust
- TK7 – Individual Court Locations Trust

While the Court has not made significant progress in reconciling and escheating condemnation and interpleader funds, the Court has made significant progress in another trust fund. Specifically, since September 2010, the Court has researched and escheated \$1.2 million from the Court Reporter Transcript UC5 Trust Fund to its General Fund and is planning to publicize another \$1.1 million eligible for escheatment from all trust funds. According to the Court, it feels it has made significant progress in this area given that only 1 full-time equivalent budgeted employee is currently working escheatment.

The Court is aware that old and possibly stale deposits likely reside in the other trust funds and has developed a plan to research the cases that comprise the fund balances and escheat or return funds as appropriate. However, this process is extremely labor intensive and consumes significant resources given the multitude and complexity of the location of source data. For instance, Fund S3D-related case information resides in several antiquated case management systems; thus, staff will need to compare many different system records against physical case files located at courthouses and record storage locations throughout the county to confirm the status of the proceedings. The Court's plan involves identifying specific steps and tasks to be

undertaken, estimating and assigning resources, clarifying individual staff roles and responsibilities, and establishing interim deadlines as well as completion goals. Moving forward, the Court believes it will complete escheatment of stale UC5 monies in the near future, and will begin escheatment of stale condemnation and interpleader monies.

Court Cannot Fully Reconcile Funds Held in Trust, and Trust Discrepancies Exist Within Daily Balancing Efforts

Similar to issues noted in prior audits, the Court's monthly trust reconciliation process starts with the period's beginning fiscal system balance and recalculates the period's ending balance using internally generated registers, Excel worksheets, or other systems capturing deposit and withdrawal information listed by case number. These balances are compared to bank statements, but there is no reconciliation to amounts recorded in the Court's case management systems or cashiering systems.

For the most part, none of the Court's various case management systems can automatically generate a cumulative funds held in trust report detailing the additions and deletions from individual case balances to provide an ending total balance. Because of this, the Court relies on trust transactions recorded in its cashiering systems, as well as on excel spreadsheets used to record and track trust deposits. However, many of the trust amounts preceded the development of the cashiering systems so these historic balances were likely not transferred into the new systems; thus, the cashiering system records would not be complete or cumulative.

Given the limitations of the functionality of the Court's case management systems, the outlying court locations are performing steps to reconcile trust amounts to the extent practical. On a daily basis, the Court is verifying trust deposits and withdrawals with bank activity; further, on a monthly basis, staff reconciles activity with fiscal balances at month-end. This activity has uncovered several large discrepancies as shown in Table 3 "*Unresolved Trust Fund Discrepancies by Account.*"

Table 3. *Unresolved Trust Fund Discrepancies by Account as of July 2012*

| Account | FUND NAME/ COURT LOCATION | UNRESOLVED DISCREPANCIES Over/(Short) | Comments |
|---------|------------------------------|---|--|
| TK7 | | | |
| 7011 | Alhambra | \$ (600,096.69) | Constant since 2006 |
| 7013 | Beverly Hills | \$ (311.00) | Prior to 2006 |
| 7018 | Downey | \$ (6,677.00) | Constant since 2006 |
| 7019 | East Los Angeles | \$ 617,850.94 | Constant since 2006 |
| 7020 | Glendale | \$ (25,984.60) | Prior to 2006 |
| 7021 | Inglewood | \$ (28,501.87) | Constant since 2006 |
| 7023 | General Trust | \$ (645,320.73) | Constant since 4/2007 |
| 7026 | Santa Clarita | \$ (1,573.00) | Prior to 2006 |
| 7027 | Pasadena | \$ 69,338.83 | Constant since 2006 |
| 7029 | Rio Hondo/El Monte | \$ 328.80 | Constant since 2006 |
| 7030 | Huntington Park | \$ (353,215.67) | Prior to 2006 |
| 7034 | South Bay/Torrance | \$ 25,023.71 | Constant since 2006 |
| 7149 | Pomona | \$ (3,753.08) | Constant since 2006 |
| TK7 | Total TK7 Unresolved | \$ (952,891.36) | |
| SK4 | C & I | \$ 135,589.57 | Constant since 12/1993 |
| S3D | GENERAL TRUST | \$ 1,113,301.76 | Constant since 12/2003 |
| UC5 | TRANSCRIPTS | \$ (12,450.35) | Unidentified items from 12/2006-6/2011 |
| | TOTAL UNRESOLVED | \$ 283,549.62 | |

Source: Court's 2012 report to the County Auditor Controller

Since July 2012, the Court has been working with the County on a plan to resolve the “out of balance” trust items within these funds. Specifically, court management has researched the out of balance amounts to determine the root cause of the discrepancies. In some cases, Court management believes out of balance amounts may correspond to old cases that it has not been able to identify. According to the Court, it has subsequently received approval from the County Auditor-Controller to net the variances prior to 2006. These variances will be transferred to a separate account.

Recommendations

To best manage and safeguard its Funds Held in Trust given its system limitations, the Court should:

22. Continue its efforts towards researching stale deposits eligible for escheatment or refund.
23. Work with the County to outline the transfer of Trust Funds S3D, SK4, and SK6 as well as associated interest in Funds SK5 and SK7. Specifically, enter into a written agreement with the County that clearly defines the responsibilities after the transfer in the event the amount transferred is not sufficient to cover the reimbursement of all trust liabilities that were deposited in the past or, conversely, if monies transferred are in excess of amounts needed.
24. Continue to explore case management system functionality that would allow the Court to have cumulative trust balance information for reconciliation purposes, as well as consider other alternative reconciliation procedures that could be employed.

25. Continue to work with the County to resolve known monthly trust fund discrepancies that have been identified.

Court Response

22. Agree. The Court will continue efforts to research stale deposits eligible escheatment.
23. Agree in theory. The County cannot transfer trust funds and interest to the Court does not have a replacement system to manage such funds. However, the County has historically, upon request, paid principal and interest on all liquidated accounts, as appropriate.
24. Agree in theory. Current system functionality does not allow reconciliations as described. We will consider this when developing new case management systems.
25. Agree. The Court resolved a majority of known monthly trust fund discrepancies with the County in January 2013.

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Section 5: Domestic Violence Fees and Fines were not Always Assessed Per Statute

In June 2003, the California Legislature requested that the AOC's Internal Audit Services (IAS) review court-ordered fines and fees in specified domestic violence cases in California. As part of this effort, IAS agreed to test the assessment of the following fees and fines related to domestic violence cases on an on-going basis:

- *State Restitution Fine PC 1202.4(b)*: A mandatory fee assessed on all cases unless the Judge finds on the record that there are compelling and extraordinary reasons for not assessing it. The amount assessed is dependent on whether the defendant is convicted of a misdemeanor or felony.
- *Probation Revocation Restitution Fine PC 1202.44*: This fee is only assessed if the Court grants the defendant probation. The amount assessed is dependent on whether the defendant is convicted of a misdemeanor or felony.
- *Domestic Violence Fee PC 1203.097(a)(5)*: This fee is only assessed if the Court grants the defendant probation.
- *Court Security/Operations Fee PC 1465.8(a)(1)*: This is mandatory fee for all case types where a defendant is convicted of a misdemeanor or felony.
- *Criminal Conviction Assessment GC 70373*: This is mandatory fee for all case types where a defendant is convicted of a misdemeanor or felony.

With the exception of the San Pedro Courthouse that did not have a criminal department, we reviewed 39 domestic violence cases at the remaining seven court locations to assess whether the Court was appropriately assessing the aforementioned fees and fines. In almost half of the 39 cases tested, the Court did not assess the mandatory fees and fines in accordance with statute or the amounts assessed were not accurately reflected in the cashiering or case management systems. Table 4. *Summary of Number of Instances Where Domestic Violence Fees and Fines Were Not Appropriately Assessed* highlights the number of instances where we noted incorrect fee or fine assessments at each location we reviewed. Because the collection of these fees and fines is critical as these monies provide revenue to fund domestic violence shelters and other programs, the Court should ensure that all fees and fines are consistently and correctly assessed on domestic violence convictions in accordance with statute.

Table 4: *Summary of Number of Instances Where Domestic Violence Fees and Fines Were Not Appropriately Assessed.*

| Court Name | State Restitution Fine | Probation Revocation Restitution Fine | Domestic Violence Fee | Court Security Operations Fee | Criminal Conviction Fee |
|------------------------------|------------------------|---------------------------------------|-----------------------|-------------------------------|-------------------------|
| Beverly Hills | | | 1 | | |
| Downey | | 1 | 1 | | |
| East Los Angeles | 1 | 1 | 1 | | |
| Glendale | | 1 | | | |
| Inglewood | 1 | 4 | 1 | | |
| Santa Clarita (San Fernando) | | | 2* | | |
| West Covina | 1 | | 2 | 2 | 2 |
| Totals | 3 | 7 | 8 | 2 | 2 |

Note: We did not test domestic violence cases at San Pedro courthouse because this court location does not have a criminal department.

* Although these cases were selected at Santa Clarita, according to the Court, the final disposition was made at the San Fernando Courthouse.

State Restitution Fine Was Not Always Correctly Assessed or Reflected in Cashiering Systems

Although Penal Code 1202.4(b) requires courts to assess a mandatory State Restitution Fine of at least \$120 (\$100 prior to 2012) for domestic violence cases where the defendant is convicted of a misdemeanor convictions and \$240 (\$200 prior to 2012) for felony convictions, our testing identified three instances where this fine was not properly assessed.

In one case at the Inglewood Courthouse, the Judge assessed \$100 instead of \$200 for a criminal conviction; while at the West Covina Courthouse, the fine was not assessed at all. Although judges have the authority to reduce or not assess this fine if the judge finds compelling and extraordinary reasons for not doing so stating the reasons on record, there was no notations in the case files for these three cases to indicate a judicial reduction. For the remaining case at the East Los Angeles Courthouse, the judge appropriately assessed the fine on the sentencing order, but the Judicial Assistant inadvertently excluded the fine on the minute order. Court clerks processing payments rely on the minute order to determine the amount owed; as a result, the fine was not reflected as assessed in the Court's case management system and cashiering system.

Probation Revocation Restitution Fine Was Not Always Correctly Assessed or Reflected in Cashiering Systems

When a defendant is granted probation, Penal Code 1202.44 requires the Court to assess and stay a Probation Revocation Restitution Fine in the same amount as the State Restitution Fine (\$100 for misdemeanors and \$200 for felonies prior to 2012, and \$120 for misdemeanors and \$240 for felonies beginning January 1, 2012.) However, our testing revealed seven instances where this fine was not properly assessed.

For instance, there were two cases at the Inglewood and Downey Courthouses where the Court inappropriately assessed the fee although probation was denied. In one separate case at the Inglewood Courthouse, the judge incorrectly assessed \$100 instead of the mandatory \$200; similarly, in two cases—one at the Glendale Courthouse and the other at the Inglewood Courthouse the Judge did not assess the fine even though defendant was granted probation. Finally, at the East Los Angeles Courthouse, the judge properly assessed the Probation Revocation Restitution Fine in the sentencing memorandum; yet, the Judicial Assistant inadvertently excluded the fine from the minute order. As a result, the fine was not reflected as assessed in the case management system.

The Domestic Violence Fee PC 1203.097(a)(5) Was Incorrectly Assessed

When a defendant is granted probation, Penal Code 1203.097(a)(5) requires the Court assess a mandatory \$400 Domestic Violence fee. Our testing found that the Court inappropriately assessed the fee in eight instances across each of the seven courthouses we reviewed, with the exception of the Glendale Courthouse. Thus, in six instances, the Court inappropriately assessed the fee even though the defendant had been denied probation and should not have been charged the fee. For two of the six cases where the probation fee should not have been assessed, although the cases were selected from Santa Clarita Courthouse, according to the Court the final disposition occurred at San Fernando Courthouse. In another instance at the Beverly Hills Courthouse, the Judge assessed \$200 instead of \$400 in the final instance, the East Los Angeles Courthouse did not assess the fee at all.

The Court did not Assess the Court Security/Operations Fee in Two Cases

In two of the domestic violence cases selected for testing, the West Covina Courthouse did not properly assess the court security/operations fee. Specifically, Penal Code 1465.8(a)(1) requires the assessment of the \$40 Court Security/Operations Fee (\$20 prior to July 28, 2009; \$30 starting July 28, 2009 through October 19, 2012) in every case in which there is a misdemeanor or felony domestic violence conviction.

The Criminal Conviction Assessment was not Always Assessed

Effective January 1, 2009, Government Code (GC) 70373 requires a Criminal Conviction Assessment of \$30 in every case in which there is a misdemeanor or felony domestic violence conviction. Our testing identified two additional cases where the West Covina Courthouse did not assess the mandatory criminal conviction fee.

Recommendations

To ensure that all statutory fees and fines are consistently and correctly assessed on domestic violence convictions, the Court should:

26. Provide training to court staff to reinforce the importance of verifying that mandatory fees and fines are assessed appropriately and correctly in accordance with statute.
27. Instruct judicial assistants to verify that the minute order and sentencing memorandum agree to ensure records in case files are consistent and accurately reflect the Judge's orders.
28. If a court clerk processing a payment finds that a mandatory fee or fine was not included, the case file should be returned and reviewed in the courtroom for correction and verification prior to processing the payment.
29. Ensure that if a Judge reduces or waives a mandatory fee or fine, the Court maintains record of the decision and the Judge's reason in the case file.

Superior Court Response

26. Agree. The Court has reminded court staff in a court-wide memo dated December 28, 2012, on the proper assessment of mandatory fees and fines on domestic violence convictions. Also, the Court will ensure that court staff is properly trained on the assessment of fees and fine.
27. Agree. The Court will remind staff that the minute order and sentencing memorandum must reflect the same information.
28. Agree. The Court will remind staff to include all ordered fees in the case file and return the file to the Judicial Assistant for correction.
29. Agree. The Court will remind staff that any waivers of fees or fines must be recorded in the case file.

Section 6: Exhibit Tracking and Management Practices Should Be Strengthened and Reinforced

When exhibits are presented in criminal and civil cases, trial courts are responsible for properly handling, safeguarding, and transferring these exhibits as guided by statutes and rules of court. Trial court and security personnel assigned these responsibilities should exercise different levels of care depending on the types of exhibits presented. Extra precautions should be taken when handling sensitive items such as drugs, sensitive items, and hazardous or toxic materials. Moreover, because exhibit rooms maintained at courts can house precious and sensitive case data, unique evidence could be compromised, lost, or stolen without the proper controls in place—all of which could potentially impact the outcome of a case.

At the eight courthouses reviewed, we assessed the Court's processes to track, manage, store, and secure exhibits. We also tested 44 specific exhibits to ensure they were appropriately tracked and inventoried. We found several good practices and procedures in place whereby each courthouse location had a designated staff assigned to oversee exhibits and exhibits were stored in a secure location. Moreover, the Court has developed a set of comprehensive court-wide exhibit policies and procedures to ensure consistency and reduce the risk of mismanagement, loss, or theft of exhibits as well as provided training on the practices.

At the same time, we found that court controls over exhibits could be improved. Although we did not identify any lost or missing exhibits, we found exhibits were sometimes difficult to locate, mislabeled, or not recorded with sufficient detail to ensure all items were properly inventoried at nearly all of the eight locations we reviewed. We also found that the courthouses reviewed did not conduct annual exhibit inventories or audits to confirm the existence and ensure the safety of exhibits. However, most of the exhibits were non-sensitive items consisting largely of paper documents, pictures, and other small items; currently, none of the court locations reviewed accept sensitive items such as sensitive items, money, and drugs. Moreover, the Court's Internal Affairs and Audit Compliance Division routinely conducts district audits in this area. Between January 2007 and March 2012, the Internal Affairs and Audit Compliance staff conducted eight specific audits at seven separate courthouse locations. While these audits act as mitigating control in that issues may be found after the fact, better preventive controls are needed.

While our testing results are summarized in Table 5, *Summary of Exhibit Issues by Courthouse Reviewed*, we describe them in further detail in the paragraphs that follow.

Table 5. *Summary of Exhibit Issues by Courthouse Location Reviewed*

| Court Name | Issue #1: Incomplete Exhibit Log &/or Insufficient Exhibit Detail | Issue #2: Court did Not Conduct Exhibit Audits or Inventories | Issue #3: Backlog in Exhibit Destruction | Issue #4: Chain of Custody Must be Reinforced |
|-------------------|--|--|---|--|
| Beverly Hills | ✓ | ✓ | ✓ | |
| Downey | ✓ | ✓ | ✓ | ✓ |
| East Los Angeles | ✓ | ✓ | ✓ | |
| Glendale | ✓ | | ✓ | |
| Inglewood | ✓ | ✓ | ✓ | |
| San Pedro | ✓ | ✓ | | ✓ |
| Santa Clarita | ✓ | | ✓ | |
| West Covina | ✓ | ✓ | ✓ | |
| Totals | 8 | 6 | 7 | 2 |

All Exhibit Logs were Incomplete or Lacked Sufficient Detail

None of the eight court locations reviewed were able to generate a universe of exhibits from their case management systems. Rather, at each location, Exhibits Custodians used a log book or an Excel spreadsheet as the primary mechanism for tracking exhibits. Yet, we found that the exhibit logs were not comprehensive, did not include sufficient detail, or did not include civil exhibits.

For example, at the Inglewood Courthouse, the exhibit log only dated back to 2006; however, the Court indicated it had exhibits dating back prior to that date. At another location, the Beverly Hills Courthouse, the Court did not provide detailed exhibit descriptions on the exhibit receipts, exhibit log, or exhibit envelopes. Rather, the Court typically listed the exhibit number or used a generic description such as “documents,” rendering us unable to identify specifically what type of document or item the Court should have in custody. At this same courthouse, the Exhibit Log listed one exhibit as “altered cards”; however, it did not describe what type of altered cards there were or the number of cards included. In this example, the altered cards listed were an envelope filled with counterfeit drivers’ licenses and credit cards—although the log did not list how many or what type were included.

Without a sufficient comprehensive and detailed listing of exhibits, the Court cannot be assured that all exhibits are present or that it could identify any exhibits that may be missing. While the risk is somewhat reduced by the fact that the Court no longer accepts highly theftable items, such as jewelry, money, and drugs, some court locations reviewed still maintain these items for older cases. To ensure all court locations are in compliance with the courtwide exhibit policies and

procedures and to reduce the risk of theft or abuse, the Court should ensure exhibit custodians update the exhibit log with sufficient detail to identify items held by the Court.

Most Court Locations Did not Conduct Exhibit Audits or Inventories

In line with best practices, the Courtwide Exhibits Manual instructs Court Site Managers or designees to spot-check approximately five percent of the exhibits stored at least annually. Yet, only two of the eight locations reviewed complied with the Exhibits Manual's audit provisions as shown in Table 5: *Summary of Exhibit Issues by Court Location Reviewed*. As such, staff at these locations did not conduct exhibit audits at all nor did staff take inventory of their exhibits.

While the premise behind the Court's semi-annual exhibit audit policy is logical, the policy should also specifically prohibit the Exhibits Custodian from being identified as a "designee" for the Site Manager to conduct the audit so that the custodian is not evaluating his or her own exhibit handling practices or be placed in a position that allows the ability to conceal a theft or mishandle exhibits. Given that the majority of the court locations reviewed were not conducting semi-annual audits, as required, and none of the locations maintained comprehensive exhibit logs, the Court has a higher risk of exhibits being lost or stolen without management's knowledge.

The Court Is Backlogged in its Exhibit Disposal and Destruction

Although the law mandates courts maintain exhibits for a certain period of time after the final determination of a case, usually 60 days, the Los Angeles County Superior Court policy is to retain misdemeanor exhibits for at least 120 days and felony exhibits for at least 150 days after the final determination. Exhibits Custodians are responsible for periodically reviewing exhibits to identify those that the Court can destroy because the mandatory retention period has passed, securing the necessary approvals for exhibit destruction, and disposing of the documents and non-sensitive exhibits designated for destruction.

While some of the court locations had processes in-place to shred documents, all other items were stored in the exhibit room until the Central Courthouse could pick up the items for destruction. According to court locations reviewed, the Central Courthouse has suspended its exhibit disposal service due to budget constraints. As a result, non-paper exhibits are being held indefinitely until the service is reinstated. Three of the eight courthouse locations reviewed—Beverly Hills, East Los Angeles, and Inglewood—had notable exhibit destruction backlogs ranging from nearly two years to seven years. Other factors could be affecting the backlogs; for instance, the Court informed us that it is waiting on the County Sheriff to identify sensitive items before destruction. Additionally, some exhibits may need to be stored as part of an appeal, or potential appeal cases, where certain exhibits must be maintained. For instance, we noted that the Downey Courthouse had a vile of blood on hand although court policy restricts courts from holding hazardous waste—although this could be related to a potential appeal. As such, the Court should work with the Central Courthouse to immediately determine whether the blood can be destroyed and, if so, properly remove the hazardous waste from its custody.

In addition, each Court should ensure it has a sufficient process in place to age exhibits and identify exhibits that may be returned to the submitting party or destroyed.

Exhibit Chain of Custody Policies and Procedures Must be Reinforced

Finally, two locations reviewed did not strictly adhere to the chain of custody procedures in the Exhibits Manual that require judicial assistants to deliver exhibits to the Exhibits Custodian in a “contained and secure manner” and to complete an Exhibit Receipt. Specifically, at the Downey, and San Pedro Courthouses, Judicial Assistants sometimes left exhibits unattended for a period of time before the Exhibits Custodians were available to verify the exhibits and complete the other intake procedures. Not only could items be lost or stolen, but there would be no practical way to identify at what stage the loss or theft occurred.

Recommendations

To mitigate the risk of theft and improve management over exhibits, the Court should:

30. Reinforce the importance of recording all exhibits on Exhibit Receipts and Exhibit Logs with sufficient detail to identify the specific items in the court’s custody, including implementing a policy requiring judicial assistants to identify on exhibit receipts the exact number of pages or items in any multi-page or multi-item exhibits. The Exhibits Custodian should verify that the number of pages or items is listed and is correct before accepting multi-page or multi-item exhibits for storage.
31. Ensure that Judicial Assistants follow court procedures to transfer and return exhibits to the Exhibits Custodian through a formal, documented change of custody process that appropriately conveys accountability and responsibility over exhibits.
32. Emphasize the timely destruction of all exhibits no longer required to be maintained for ongoing court activities, in accordance with appropriate return or destruction guidelines. This could include scheduling regular exhibits reviews and destructions to avoid a backlog in the destruction of exhibits.
33. Reinforce the Exhibit Manual’s audit provisions as applied to criminal, traffic, and civil exhibits.
34. Revise the Exhibit Manual’s audit provisions to prohibit the Exhibits Custodian from being named as the “designee” to conduct exhibit audits.
35. Implement a policy requiring courts to conduct an inventory of on-site exhibits and update their Exhibit Logs to include all exhibits in their possession, including older exhibits not currently on the log.
36. Review exhibit access and limit it to court staff who require access to perform their job duties.
37. Work with the appropriate staff at the Clara Shortridge Folz Courthouse to determine what steps should be taken to safely remove prohibited items from storage.

Superior Court Response

30. Agree. The Court will remind staff to record exhibits with sufficient detail in the exhibit log, including the number of pages of an exhibit. In addition, the Court will remind Exhibit Custodians to verify the number of pages or items is correct when accepting multi-items and pages.
31. Agree. The Court will remind Judicial Assistants to document the transfer of exhibits as required by the exhibit procedures.
32. Agree. The Court locations will be reminded to destroy exhibits as timely as possible while also complying with other regulatory/statutory requirements.
33. Agree. The Court will remind staff to follow the audit procedures in the Exhibit Custodian's Manual of Procedure for Criminal and Traffic Exhibits.
34. Agree. The Exhibit Custodian's Manual currently specifies that the site manager/designee shall conduct an exhibit audit at least once a year.
The Internal Affairs and Audit Compliance Unit will conduct periodic exhibit audits.
35. Agree. The Court will remind all locations to ensure that all exhibits are recorded on the exhibit log.
36. Agree. The Court will remind all locations that exhibit access should be limited.
37. Agree. The Court will determine what steps should be taken to safely remove prohibited items from storage. Central Criminal will work and train outlying district staff when necessary.

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Appendix A: Matrix of Audit Results by Courthouse Location

| Audit Result | Beverly Hills | Downey | East Los Angeles | Glendale | Inglewood | San Pedro | Santa Clarita | West Covina |
|--|---------------|--------|------------------|----------|-----------|-----------|---------------|-------------|
| Section 1: Improvement to Case Management Systems and Cash Collections Practices are Necessary to Safeguard Court Assets | | | | | | | | |
| Insufficient Review of Fee and Fine Reductions and Fee Waivers | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manual Receipts Are Not Well Tracked or Managed | | ✓ | | | ✓ | | ✓ | ✓ |
| Daily Collections Not Always Safeguarded | | ✓ | | | ✓ | | | ✓ |
| Surprise Cash Counts not Conducted at Least Quarterly | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| DMV Access is not Adequately Monitored | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Section 2: The Court Could Strengthen Its Accounts Payable Processes | | | | | | | | |
| No Issues Noted at Individual Courthouses | | | | | | | | |
| Section 3: While the Court Employed Many Good Procurement Practices, Protocols Could be Enhanced to Increase Efficiency and Better Protect the Courts Interests | | | | | | | | |
| Court Did not Always Issue or Approve a P.O. prior to Procuring a Good or Service | | ✓ | | ✓ | | ✓ | | ✓ |

| Audit Result | Beverly Hills | Downey | East Los Angeles | Glendale | Inglewood | San Pedro | Santa Clarita | West Covina |
|---|---------------|--------|------------------|----------|-----------|-----------|---------------|-------------|
| Section 4: The Court Should Continue Efforts to Reconcile its Funds Held in Trust and Escheat or Refund Stale Monies | | | | | | | | |
| No Issues Noted at Individual Courthouses | | | | | | | | |
| Section 5: Domestic Violence Fees and Fines Were not Always Assessed in Accordance with Statute | | | | | | | | |
| DV Fees Were not Appropriately Assessed | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Section 6: Controls Over Exhibits Should be Strengthened and Reinforced | | | | | | | | |
| Incomplete Exhibit Log &/or Insufficient Exhibit Detail | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Court did Not Conduct Exhibit Audits or Inventories | ✓ | ✓ | ✓ | | ✓ | ✓ | | ✓ |
| Backlog in Exhibit Destruction | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Chain of Custody Must be Reinforced | | ✓ | | | | ✓ | | |

Appendix B: Court's Full Response



JOHN A. CLARKE
EXECUTIVE OFFICER / CLERK

INTERNAL AFFAIRS AND AUDIT
COMPLIANCE
111 NORTH HILL STREET, RM. 422K
LOS ANGELES, CA 90012-3014

*Superior Court of California
County of Los Angeles*

February 1, 2013

Mr. John Judnick, Internal Audit Services
Administrative Office of the Courts
455 Golden Gate Avenue, 7th Floor
San Francisco, CA 94102

**RESPONSE TO THE ADMINISTRATIVE OFFICE OF THE COURTS 2012
PERFORMANCE AUDIT OF THE SUPERIOR COURT OF CALIFORNIA, COUNTY OF
LOS ANGELES**

Dear Mr. Judnick:

Attached is the Court's response to the Administrative Office of the Courts (AOC) 2012 Performance Audit of the Los Angeles Superior Court. The Court's response includes the information you requested, such as our agreement or disagreement with the issues and recommendations, a brief explanation of our corrective action plans, an estimated implementation date, and the individual responsible for performing the corrective actions.

An electronic copy of our response has been e-mailed to you at the AOC and to the auditors at Sjoberg Evashenk Consulting, Inc. We appreciate the cooperation your auditors have shown during the audit. If you have any questions regarding our response, you may contact Kristie Lange, Senior Administrator, Internal Affairs and Audit Compliance at (213) 974-6001.

Yours truly,


JOHN A. CLARKE
EXECUTIVE OFFICER/CLERK

JAC:KLL:ps
Attachment

Mr. John Judnick, Internal Audit Services
Administrative Office of the Courts
February 1, 2013
Page 2

- c: William H. Mitchell, Deputy Executive Officer
Administration and Finance
- Deni Butler, Deputy Executive Officer
District Operations
- Zoe Venhuizen, Deputy Executive Officer
Central Operations
- Frederick Klunder, Chief Information Officer
- Bryan Borys, Assistant to the Executive Officer

AOC NOVEMBER 2012 AUDIT RESPONSE

| Recommendation | Agree/ Disagree | Corrective Action Plan | Timetable | Responsible Party |
|--|------------------------|---|----------------------|---|
| <p>1. Work with the Court's Information Systems and Technology Bureau to determine the feasibility of developing court-ordered debt reduction reports or other ancillary reports that could be used by the Court to monitor court ordered debt reductions for all case types.</p> | <p>Agree</p> | <p>The ETRs Reduced Fine Disposition report and the Reimbursements for Minor's Counsel Accounts Receivable report are available for traffic and family law cases. ISTB and Operations will work together to determine the feasibility of modifying fee and payment entries for other case types that would support the generation of fee and fine reduction reports that could be used by the Court to monitor fee and fine reductions.</p> | <p>July 2014</p> | <p>Fred Klunder, Information Systems & Technology</p> |
| <p>2. Establish a monthly or periodic internal review process whereby an independent court employee selects a sample of case files to compare actual case file records and judicial orders with the information recorded in the Court's case management systems and PRD to ensure court-ordered debt reflected in the case management system match those reflected on hard case files and PRD.</p> | <p>Agree in Theory</p> | <p>The Court will investigate the feasibility of comparing collections to the various systems.</p> | <p>July 2014</p> | <p>Kristie Lange, Internal Affairs and Audit Compliance</p> |
| <p>3. Implement a process whereby management periodically, at least monthly, runs reports of fee waivers from the Court's case management systems and selects a sample of fee waivers from the universe to ensure the waivers were appropriately processed and authorized.</p> | <p>Agree</p> | <p>ISTB will send an e-mail with the procedures for generating CIVAS/SCOT Action Code Look-Up Report – 1442 that provide a list of cases where fee waiver entries were made. District administrators will be responsible for ensuring that court managers perform the monthly random audits for the courthouses in their district.</p> | <p>December 2013</p> | <p>Fred Klunder, Information Systems & Technology</p> |
| <p>4. Ensure that all court collections are securely handled and protected throughout the process such as between the cashiers' stations and the office.</p> | <p>Agree</p> | <p>The Court will continue to secure collections throughout the daily process.</p> | <p>January 2013</p> | <p>Kristie Lange, Internal Affairs and Audit Compliance</p> |

| Recommendation | Agree/ Disagree | Corrective Action Plan | Timetable | Responsible Party |
|--|--------------------|--|---------------|--|
| 5. To the extent practical given the physical building configurations, limit practice of walking undeposited collections through court hallways while the general public is in the building to the extent possible, or develop an alternate protocol to ensure collections are better safeguarded such as providing a security escort and carrying the collections in a secure, inconspicuous container. | Agree | To the extent possible, the Court will continue to secure collections and ensure that the money is safeguarded. Another employee may be assigned to escort monies in public hallways, when necessary. At most locations, armored transport picks up the daily collections. | January 2013 | Kristie Lange, Internal Affairs and Audit Compliance |
| 6. Maintain manual receipt books in a safe or securely locked drawer when not in use. | Agree | The Court will reinforce the need to secure manual receipt books in a safe or locking cabinet. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance |
| 7. Compare manual receipts issued against the cashiers' balance sheets to ensure that they were properly recorded in the Court's FPS or PRQ cashing system. | Agree | The Court will reinforce the need to ensure that manual receipts were recorded in the cashing system. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance |
| 8. Ensure manual receipt book logs contain all fields recommended by the FIN Manual §10.01. | Agree | The Court will reinforce the need to have the manual receipt logs filled out completely with all pertinent information. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance |
| 9. Implement a process to conduct surprise cash count audits at least on a quarterly basis, as required by the FIN Manual §10.02. The Court should retain copies of the surprise cash counts in its records. | Agree | The Court will reinforce to the collection areas to conduct surprise cash counts at least quarterly until the internal court procedures are submitted to the AOC for approval. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance |
| 10. Ensure all Court employees with DMV access sign the annual DMV confidentiality statement. | Agree | The Court will ensure that all Court employees with DMV access sign the annual DMV confidentiality statement. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance |

| Recommendation | Agree/ Disagree | Corrective Action | Timetable | Responsible Party |
|---|------------------------|--|----------------------|---|
| <p>11. Formalize informal directives and follow the process to periodically review DMV system access reports to ensure the level of access granted is necessary to perform daily duties.</p> | <p>Disagree</p> | <p>Plan ISTB will discuss at meetings and issue an e-mail twice a year (January and July) reminding court managers/administrators and district administrators to periodically review ETRS system access reports, which include DMV access, to ensure the level of access granted for each employee is necessary to perform daily duties. District administrators will be responsible for ensuring that court managers complete the reviews for the courthouses in their district.</p> | <p>July 2013</p> | <p>Fred Klunder, Information Systems & Technology</p> |
| <p>12. Implement a process to review DMV user activity reports and ensure activity is appropriate and related to court-business.</p> | <p>Agree</p> | <p>ISTB will issue an e-mail twice a year (January and July) asking court managers/administrators and district administrators to review ETRS/DMV Non-Direct Usage Reports to confirm that activity is appropriate and related to court-business. District administrators will be responsible for ensuring that court managers complete the reviews for the courthouses in their district.</p> <p>The Court will periodically conduct random audits.</p> | <p>December 2013</p> | <p>Fred Klunder, Information Systems & Technology</p> |
| <p>13. Verify that interpreters submit a log signed by the Judicial Assistant for all days claimed prior to the Court processing the claim for payment.</p> | <p>Agree</p> | <p>The Court will verify that interpreters submit a log signed by the Judicial Assistant for all days claimed prior to the Court processing the claim for payment.</p> | <p>February 2013</p> | <p>Kristie Lange, Internal Affairs and Audit Compliance Terry Weiss, Legal/Support Services</p> |
| <p>14. Implement a process to verify the number of folios reported by Court Reporters and ensure Court Reporters submit a copy of the Notice to Prepare Transcripts prior to processing Court Reporter Transcript claims, or submit an alternative procedure to AOC for approval.</p> | <p>Agree in theory</p> | <p>The Court will not be able to implement this recommendation since it would be very labor intensive and we lack the staffing to count words for every transcript submitted. We will submit our current procedures to the AOC for approval.</p> | <p>Unknown</p> | <p>Terry Weiss, Legal/Support Services</p> |

| Recommendation | Agree/ Disagree | Corrective Action Plan | Timetable | Responsible Party |
|---|--------------------|--|---------------|---|
| 15. Continue to implement measures to ensure compliance with the JBCM, which should include a discussion of the processes the Court will employ to comply with all mandatory JBCM requirements, including those relating to the roles and authority of personnel involved in the purchasing, contracting, receiving, payable processing, and contract administration activities exercised by the Court. | Disagree | The Court will continue to implement all measures of the JBCM as well as develop an authority matrix that will identify personnel involved in the purchasing, contracting, receiving, payable processing, and contract administration activities exercised by the Court. | February 2013 | Chris Anderson, Contracts & Supply Management |
| 16. Establish a documented plan outlining steps to be taken to comply with JBCM, including associated deadlines. | Agree | The Court has established an implementation plan in response to this recommendation to ensure the creation and full implementation of the Court's Local Branch Contracting Manual (LBCM). Through the creation and implementation of the LBCM, the JBCM requirements and associated deadlines will be addressed. | June 2013 | Chris Anderson, Contracts & Supply Management |
| 17. Ensure that formal purchasing processes are consistently followed and that purchase orders are issued prior to procuring goods or services. | Agree | The Court agrees and will ensure that formal purchasing processes are consistently followed and that purchase orders are issued prior to procuring goods and services. This will be done through consistent training of best practices for purchasing staff and seeking further consolidation of purchasing agents under one administration. | Ongoing | Chris Anderson, Contracts & Supply Management |
| 18. Cease paper tracking processes and rely fully on the controls in Phoenix-FI for procurement activities, which satisfy the applicable FIN Manual and JBCM requirements. | Agree | The Court agrees with the recommendation and will ensure that all paper tracking processes will be eliminated as a means of seeking purchasing approval from managers as a substitution for using the Phoenix-FI for procurement activities. | Ongoing | Chris Anderson, Contracts & Supply Management |

| Recommendation | Agree/ Disagree/ Agree | Corrective Action Plan | Timetable | Responsible Party |
|---|------------------------------|---|-----------|--|
| 19. Train its purchasing staff on when and how to use the various purchase order options available to the Court in Phoenix, FL. | Disagree | As part of the continuing efforts of the Court to ensure compliance with the JRCM, the Chief Procurement Officer will ensure that staff involved in procuring goods and services will have the proper training to consistently apply appropriate purchase order methodologies. | Ongoing | Chris Anderson, Contracts & Supply Management |
| 20. Update its Conflict of Interest provisions to designate Procurement Technician classification as a required employee to complete a Form 700, or other alternate document allowing the disclosure of personal financial interests and relationships. | Agree in Theory | The Court will take this recommendation under advisement. Beginning in March 2013, the Director of Human Resources and Court Counsel will review all classifications that have been identified to complete a Form 700. During this review, the matter of adding the Procurement Technician classification will be considered. If the Court determines that the Procurement Technician classification should complete a Form 700, then this process will be completed in May 2013. | May 2013 | Chris Anderson, Contracts & Supply Management |
| 21. Review and revise existing DSO and MOU agreements as appropriate to include adequate cost, schedule, scope of work, terms and conditions, and billing processes, as required by the JRCM and GC §77212(d). | Agree | The Court, under advisement of Court Counsel, will work to create a supplement attachment for DSO's that identifies the scope of work, method of delivery, anticipated results and billing processes. The attachment would require the signatures of both parties to the agreement. | July 2013 | Christine Padilla, Expenditure and Resource Management |
| 22. Continue its efforts towards researching state deposits eligible for escheatment or refund. | Agree | The Court will continue efforts to research state deposits eligible for escheatment. | Ongoing | Debbie SooHoo, Revenue Management |

| Recommendation | Agree/ Disagree | Corrective Action Plan | Timetable | Responsible Party |
|--|--------------------|---|-----------------------|--|
| 23. Work with the County to outline the transfer of Trust Funds \$3D, \$K4, and \$K6 as well as associated interest in Funds \$K5 and \$K7. Specifically, enter into a written agreement with the County that clearly defines the responsibilities after the transfer in the event the amount transferred is not sufficient to cover the reimbursement of all trust liabilities that were deposited in the past or, conversely, if monies transferred are in excess of amounts needed. | Agree in Theory | The County cannot transfer trust funds and interest to the Court as the Court does not have a replacement system to manage such funds. However, the County has historically, upon request, paid principal and interest on all liquidated accounts, as appropriate. | N/A | Debbie SooHoo, Revenue Management |
| 24. Continue to explore case management system functionality that would allow the Court to have cumulative trust balance information for reconciliation purposes, as well as consider other alternative reconciliation procedures that could be employed. | Agree in Theory | Current system functionality does not allow reconciliations as described. We will consider this when developing new case management systems. | N/A | Kristie Lange, Internal Affairs and Audit Compliance |
| 25. Continue to work with the County to resolve known monthly trust fund discrepancies that have been identified. | Agree | The Court resolved a majority of known monthly trust fund discrepancies with the County in January 2013. | June 2013 and Ongoing | Debbie SooHoo, Revenue Management |
| 26. Provide training to court staff to reinforce the importance of verifying that mandatory court ordered debt are assessed appropriately and correctly in accordance with statute. | Agree | The Court has reminded court staff in a court-wide memo dated December 28, 2012, on the proper assessment of mandatory fees and fines on domestic violence convictions. Also, the Court will ensure that court staff is properly trained on the assessment of fees and fines. | December 2012 | Kristie Lange, Internal Affairs and Audit Compliance |
| 27. Instruct Judicial Assistants to verify that the minute order and sentencing memorandum agree to ensure records in case files are consistent and accurately reflect the Judge's orders. | Agree | The Court will remind staff that the minute order and sentencing memorandum must reflect the same information. | February 2013 | Debbie SooHoo, Revenue Management |
| 28. If a court clerk processing a payment finds that a mandatory fee or fine was not included, the case file should be returned and reviewed in the courtroom for correction and verification prior to processing the payment. | Agree | The Court will remind staff to include all ordered fees in the case file and return the file to the Judicial Assistant for correction. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance |

| Recommendation | Agree/ Disagree | Corrective Action Plan | Timetable | Responsible Party |
|--|--------------------|--|---------------|--|
| 29. Ensure that if a Judge reduces or waives a mandatory fee or fine, the Court maintains record of the decision and the Judge's reason in the case file. | Disagree Agree | The Court will remind staff that any waivers of fees or fines must be recorded in the case file. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance |
| 30. Reinforce the importance of recording all exhibits on Exhibit Receipts and Exhibit Logs with sufficient detail to identify the specific items in the court's custody, including implementing a policy requiring Judicial Assistants to identify on exhibit receipts the exact number of pages or items in any multi-page or multi-item exhibits. The Exhibits Custodian should verify that the number of pages or items is listed and is correct before accepting multi-page or multi-item exhibits for storage. | Agree | The Court will remind staff to record exhibits with sufficient detail in the exhibit log, including the number of pages of an exhibit. In addition, the Court will remind Exhibit Custodians to verify the number of pages or items is correct when accepting multi-items and pages. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance Susan Cichy, Central Criminal Operations |
| 31. Ensure Judicial Assistants follow court procedures to transfer and return exhibits to the Exhibits Custodian through a formal, documented change of custody process that appropriately conveys accountability and responsibility over exhibits. | Agree | The Court will remind Judicial Assistants to document the transfer of exhibits as required by the exhibit procedures. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance Susan Cichy, Central Criminal Operations |
| 32. Emphasize the timely destruction of all exhibits no longer required to be maintained for ongoing court activities, in accordance with appropriate return or destruction guidelines. This could include scheduling regular exhibit reviews and destructions to avoid a backlog in the destruction of exhibits. | Agree | The Court locations will be reminded to destroy exhibits as timely as possible while also complying with other regulatory/statutory requirements. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance Susan Cichy, Central Criminal Operations |
| 33. Reinforce the Exhibit Manual's audit provisions as applied to criminal, traffic, and civil exhibits. | Agree | The Court will remind staff to follow the audit procedures in the Exhibit Custodian's Manual of Procedure for Criminal and Traffic Exhibits. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance Susan Cichy, Central Criminal Operations |

| Recommendation | Agree/ Disagree | Corrective Action Plan | Timetable | Responsible Party |
|---|--------------------|--|---------------|--|
| 34. Revise the Exhibit Manual's audit provisions to require a member of the court staff other than the Exhibits Custodian to conduct exhibit audits. | Disagree | The Exhibit Custodian's Manual currently specifies that the site manager/designee shall conduct an exhibit audit at least once a year. The Internal Affairs and Audit Compliance Unit will conduct periodic exhibit audits. | Ongoing | District & Central Operations |
| 35. Implement a policy requiring courts to conduct an inventory of on-site exhibits and update their Exhibit Logs to include all exhibits in their possession, including older exhibits not currently on the log. | Agree | The Court will remind all locations to ensure that all exhibits are recorded on the exhibit log. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance Susan Cichy, Central Criminal Operations |
| 36. Review exhibit access and limit it to court staff who require access to perform their job duties. | Agree | The Court will remind all locations that exhibit access should be limited. | February 2013 | Kristie Lange, Internal Affairs and Audit Compliance Susan Cichy, Central Criminal Operations |
| 37. Work with the appropriate staff at the Clara Foltz Courthouse to determine what steps should be taken to safely remove prohibited items from storage. | Agree | The Court will determine what steps should be taken to safely remove prohibited items from storage. Central Criminal will work with and train outlying district staff when necessary. | December 2014 | Kristie Lange, Internal Affairs and Audit Compliance Susan Cichy, Central Criminal Operations |

2/1/13

