



**Audit of the
Superior Court of California,
County of Santa Barbara**

JUNE 2022



JUDICIAL COUNCIL
OF CALIFORNIA

AUDIT SERVICES

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Superior Court of California, County of Santa Barbara

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EXECUTIVE SUMMARY

Introduction

Government Code, sections 77206(g) and 77009(h) provide the Judicial Council of California (Judicial Council) with the authority to inspect and review superior court records and to perform audits, reviews, and investigations of superior court operations. The Judicial Council's Office of Audit Services (Audit Services) periodically conducts performance audits of the superior courts in order to verify their compliance with the Judicial Council's policies and with state law. These audits, as well as similar audits of the appellate courts, are primarily focused on assisting the courts identify which of their practices, if any, can be improved upon to better promote sound business practices and to demonstrate accountability for their spending of the public's funds.

State law authorizes the Judicial Council to establish each superior court's annual budget and to adopt rules for court administration, practice, and procedure. Most of the criteria used by Audit Services stems from the policies promulgated by the Judicial Council, such as those contained within the *Trial Court Financial Policies and Procedures Manual* (FIN Manual) and the *Judicial Branch Contracting Manual* (JBCM). These policies establish both mandatory requirements that all superior courts must follow, as well as suggestive guidance. California's courts drastically vary in terms of their caseloads, budget, and staffing levels, thus requiring the Judicial Council to adopt rules that at times provide the courts with flexibility given their varying resources and constraints. State law also requires the superior courts to operate under a decentralized system of management, and the Judicial Council's policies establish the boundaries within which courts exercise their discretion when managing their day-to-day operations.

Audit Services' annual audit plan for the Judicial Branch establishes the scope of each audit and provides a tentative schedule for the courts being audited during the fiscal year. The audit plan explains those scope areas deemed to be of higher risk based on Audit Services' professional judgment and recognizes that other state audit agencies may, at times, perform reviews that may overlap with Audit Services work. In those instances, Audit Services may curtail its planned procedures as noted in the scope and methodology section of this report.

Summary of Audit Results

Our audit found that the Superior Court of California, County of Santa Barbara (Court) demonstrated compliance with many of the Judicial Council's requirements evaluated during the audit, and should be commended for its receptiveness to suggestions for further improvement. Table 1 below presents a summary of the audit's results, including references to any audit findings discussed in the body of the report, and a summary of the Court's agreement or disagreement with the noted findings. Other matters such as isolated or minor non-compliance—which in our professional judgement do not rise to the level of a reportable finding—were communicated separately to the Court's management in written form.

Table 1 Audit Results – At A Glance – California Superior Court, County of Santa Barbara

Areas and Sub-Areas Subject to Review		Tested	Reportable Audit Findings		
			# of Findings	Finding Reference(s)	Court's View
Cash Handling					
1	Daily Opening Process	N/A	-		
2	Voided Transactions	N/A	-		
3	Manual Receipts	N/A	-		
4	Mail Payments	N/A	-		
5	Internet Payments	N/A	-		
6	Change Fund	N/A	-		
7	End-Of-Day Balancing and Closeout	N/A	-		
8	Bank Deposits	N/A	-		
9	Other Internal Controls	N/A	-		
Procurement and Contracts					
10	Procurement Initiation	Yes	✓		
11	Authorization & Authority Levels	Yes	✓		
12	Competitive Procurements	Yes	✓		
13	Non-Competitive Procurements	Yes	✓		
14	Leveraged Purchase Agreements	Yes	✓		
15	Contract Terms	Yes	✓		
16	Other Internal Controls	Yes	✓		
Payment Processing					
17	3-Point Match Process	Yes	✓		
18	Payment Approval & Authority Levels	Yes	✓		
19	Special Rules - In-Court Service Providers	Yes	✓		
20	Special Rules - Court Interpreters	N/A	-		
21	Other Items of Expense	Yes	✓		
22	Jury Expenses	Yes	✓		
23	Allowable Costs	Yes	✓		
24	Other Internal Controls	Yes	✓		
Fine & Fee Distributions					
25	Distribution Calculations	Yes	✓		
Fund Balance					
26	Year-End Encumbrances	Yes	1	2021-26-01	Disagrees
27	Use of "Held on Behalf" Funds	N/A	-		
JBSIS Case Filing Data					
28	Validity of JBSIS Data	Yes	✓		
Grant Award Compliance					
29	AB 1058 Program	Yes	✓		
Enhanced Collections					
30	Enhanced Collections	Yes	✓		
Other Areas					
31	[None]	N/A	-		

Source: Auditor generated table based on testing results and court management's perspective.

Note: Areas subjected to testing are generally based on requirements in the Trial Court Financial Policies and Procedures Manual, the Judicial Branch Contracting Manual, or California Rules of Court, but may also include other Judicial Council policies and directives. Areas not tested are based on audit determinations—such as area was not applicable, recently reviewed by others, or no transactions were selected to review—which are described more fully in the Audit Scope and Methodology section of the report. Applicable criteria are cited in each audit finding (as referenced above) in the body of our report. The Judicial Council's audit staff determine the scope of each audit based on their professional judgment and the needs of the Judicial Council, while also providing courts with an opportunity to highlight additional areas for potential review depending on available audit resources.

The Court demonstrated consistent adherence with many of the different compliance requirements evaluated during the audit, as shown in Table 1. In particular, the Court demonstrated good compliance in the areas of revenue distribution and in meeting enhanced collections requirements. For example, our review of the Court's revenue distributions found that its CMS is properly programmed to ensure the fines, fees, penalties, and assessments it collects are properly distributed. In addition, the Court properly supports its timekeeping and other expenses that it charges to the enhanced collections.

However, our audit did identify one reportable audit finding where we believe the Court should consider taking corrective action to improve its operations and more fully comply with the Judicial Council's policies. This finding is identified in Table 1 under the column "Reportable Audit Findings" and includes a reference number to assist the reader in locating and viewing in further detail the specific finding and the Court's perspective.

One particular area of focus for the Court as it considers opportunities for improvement should include strengthening its controls over its year-end encumbrances. Specifically, the Court incorrectly reported/overstated three encumbrances at the end of fiscal year 2020-21. When a court overstates encumbrances at year-end, it has the effect of reducing the Court's fund balance subject to the 3% statutory cap and can protect or limit the Court's exposure to budgetary reductions by the Judicial Council in the subsequent fiscal year. The Court indicated it disagreed with our finding and believes it generally complies with the FIN Manual requirements for year-end encumbrances.

Summary Perspective of Court Officials

Audit Services initiated its audit of the Court on December 10, 2021, and completed its fieldwork in April 2021. Audit Services shared the draft audit finding with the Court on April 21, 2022, and received the Court's final official response on May 2, 2022. Overall, the Court disagreed with the finding and its specific response is included in the body of the report after the finding.

BACKGROUND ON THE COURT'S OPERATIONS

The Superior Court of California, County of Santa Barbara (Court) operates seven court facilities in the cities of Santa Barbara, Santa Maria, Lompoc, and Solvang. The Court operates under the authority and direction of the Presiding Judge, who is responsible for ensuring the effective management and administration of the Court, consistent with any rules, policies, strategic plan, and the funding provided by the Judicial Council.

California's 58 superior courts each have differing workloads, staffing levels, and financial resources. They operate under a decentralized system of governance and are each responsible for their own local court operations and business decisions. The Presiding Judge has the authority to: develop a local budget and allocate the funding provided by the Judicial Council; approve procurements and contracts; and authorize the Court's expenditures. The information in Table 2 is intended to provide the reader with context and perspective on the Court's relative size and workload compared to averages of all 58 superior courts.

Table 2 – Statistical Data for Santa Barbara Superior Court and Average of all Superior Courts

Statistic	Santa Barbara Superior Court	Average of All Superior Courts				
		Cluster 1 Courts	Cluster 2 Courts	Cluster 3 Courts	Cluster 4 Courts	All 58 Courts
Financial Highlights (Fiscal Year 2020-21)						
Total Revenue	\$ 30,859,740	\$ 2,801,621	\$ 11,732,226	\$ 47,147,065	\$ 224,251,277	\$ 46,673,368
Total Expenditures	\$ 31,034,654	\$ 2,685,427	\$ 11,793,650	\$ 47,226,007	\$ 224,907,619	\$ 46,774,840
Staff Salaries & Benefits As a % of Total Expenditures	\$ 24,847,664 80.1%	\$ 1,783,894 66.4%	\$ 9,042,960 76.7%	\$ 36,756,739 77.8%	\$ 188,576,818 83.8%	\$ 38,140,615 81.5%
Judicial Officers and Staff (2021 Court Statistics Report)						
Judges	21	2	8	30	142	30
Commissioners/Referees	3	-	1	4	21	4
Non-Judicial Staff (approx.)	228	16	86	310	1,419	302
Total	252	18	95	344	1,582	336
New Case Filings (Fiscal Year 2019-20)						
Appeal Filings	169	6	69	140	134	78
Civil Filings						
Civil	4,219	265	1,932	8,189	52,641	9,898
Family Law	2,137	234	1,415	4,899	24,294	5,046
Juvenile Delinquency	426	25	121	502	1,245	337
Juvenile Dependency	361	33	186	558	3,901	742
Mental Health	760	14	206	1,383	8,293	1,536
Probate	527	53	289	1,004	4,323	945
Small Claims	465	37	203	818	5,802	1,070
Criminal Filings						
Felonies	2,145	241	1,268	3,870	13,958	3,336
Misdemeanors / Infractions	41,389	3,778	16,294	58,008	245,346	54,000
Total	52,598	4,686	21,983	79,371	359,937	76,988

Source: Financial and case filings data maintained by the Judicial Council. The date ranges differ for the above information due to the different sources of data. The financial data is from the Judicial Council's Phoenix financial system, the judicial officer and staff counts are from the most recent Court Statistics Report, and the case filing counts are from the Judicial Branch Statistical Information System data as of May 4, 2022, and may not agree with other reports as this data is continuously updated.

Note: The Judicial Council generally groups superior courts into four clusters and uses these clusters, for example, when analyzing workload and allocating funding to courts. According to past Judicial Council documents, the cluster 1 courts are those superior courts with between 1.1 and 4 judicial position equivalents (JPEs), cluster 2 courts are those with between 4.1 and 20 JPEs, cluster 3 courts are those with between 20.1 and 59.9 JPEs, and cluster 4 courts are those with 60 or more JPEs. Santa Barbara Superior Court is a cluster 3 court.

AUDIT SCOPE AND METHODOLOGY

Audit Services initiated an audit of the Superior Court of California, County of Santa Barbara (Court) in order to determine whether it complied with certain key provisions of statute and the policies and procedures adopted by the Judicial Council of California. Our audit was limited to evaluating compliance with those requirements that, in our professional judgment, were necessary to answer the audit's objectives. The period covered by this audit was generally limited to fiscal year (FY) 2020-21, but certain compliance areas noted below required that we review earlier periods or current practices. Table 3 lists the specific audit objectives and the methods we used to address them.

Table 3 – Audit Objectives and the Methods Used to Address Them

	Audit Objective	Method
1	Through inquiry, auditor observation, and review of local court policies and procedures, identify areas of high risk to evaluate the Court's compliance.	Audit Services developed an annual audit plan generally identifying areas of high risk at the superior courts. At the Court, we made inquiries and reviewed any local procedures to further understand its unique processes in each compliance area.
2	<p>Determine whether the Court implemented adequate internal controls over its handling of cash receipts and other payments. Such a review will include, at a minimum, the following:</p> <ul style="list-style-type: none"> ▪ Determine whether the Court complied with the mandatory requirements in the FIN manual for internal controls over cash (payment) handling. ▪ Assess the quality of the Court's internal controls to minimize the potential for theft, such as controls over the use of manual receipts and voided transactions. 	During the planning phase of the audit, the Court expressed concerns over us performing on-site fieldwork due to ongoing concerns and uncertainty related to COVID-19. Since our audit procedures rely extensively on in-person observations of key controls, we did not perform this work.
3	Determine whether the Court demonstrated appropriate control over its non-personal services spending activities. Specifically, our review included the following:	We reviewed the Court's assignment of purchasing and payment roles to assess whether it appropriately segregated staff roles for approving purchases, procuring the goods or services,

<ul style="list-style-type: none">▪ Determine whether the Court’s procurement transactions complied with the applicable requirements in the Judicial Branch Contracting Manual or the Trial Court Financial Policies and Procedures Manual. ▪ Determine whether the Court’s payment transactions—including but not limited to vendor payments and claim payments—were reasonable and in compliance with the Trial Court Financial Policies and Procedures Manual and applicable Judicial Council policies and rules.	<p>receiving the goods, and paying for the goods or services.</p> <p>We also judgmentally selected a sample of 25 procurement transactions and assessed whether each transaction:</p> <ul style="list-style-type: none">• Was properly authorized and approved by authorized court management.• Adhered to competitive bidding requirements, when applicable.• Had contracts, when applicable, that contained certain terms required to protect the Court’s interests. <p>We selected a sample of 40 FY 2020-21 payments pertaining to various purchase orders, contracts, or in-court services, and determined whether:</p> <ul style="list-style-type: none">• The Court followed the 3-point match process as described in the FIN Manual to ensure goods and services are received and accepted, and in accordance with contract terms prior to payment.• Appropriate court staff authorized payment based on the Court’s payment controls and authorization matrix.• The payment reasonably represented an allowable “court operations” cost per Rule of Court, Rule 10.810.• The payments to in-court service providers adhered to applicable Judicial Council policies. <p>(Note: We did not review court interpreter claims as the Audit Committee suggested we suspend reviewing these types of claims to allow courts time to develop procedures to address previously reported systemic audit findings related to court interpreter service claims.)</p>
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<p>4</p>	<p>Determine whether the Court properly calculates fine and fee distributions for certain selected case types.</p>	<p>We reviewed the Court’s process for updating and controlling access to its distribution tables.</p> <p>We also reviewed the Court’s calculations and distributions of fines, penalties, fees, and assessments for certain high volume or complex case types.</p>
<p>5</p>	<p>Determine whether the Court properly classified its year-end encumbrances for the most recent completed fiscal year.</p> <p>Determine whether the Court spent any funds the Judicial Council approved the Court to hold from prior year excess fund balance funds only for the purposes approved by the Judicial Council.</p>	<p>We obtained the Court’s Year-End Encumbrance Calculation Worksheet for the most recently completed fiscal year at the time of our testing (FY 2020-21) and traced and verified year-end encumbrances to supporting records and the Phoenix accounting system.</p> <p>We obtained any Judicial Council-approved requests by the Court to hold excess prior year fund balances. To the extent that the Court had and spent any of these held funds, we verified that such spending was limited for the purposes previously approved by the Judicial Council.</p>
<p>6</p>	<p>Determine whether the Court accurately reports case filings data to the Judicial Council through the Judicial Branch Statistics Information System (JBSIS).</p>	<p>We obtained an understanding of the Court’s process for reporting case filings data to the Judicial Council through JBSIS. For the most recent fiscal year for which the Judicial Council froze and used JBSIS data for funding allocations (FY 2019-20), we performed the following:</p> <ul style="list-style-type: none"> • Obtained the relevant case filings data the Court reported to JBSIS and reconciled the reported new case filings counts to its underlying records of cases that support each reported case filing count, by case type, to validate that the Court accurately reported its case filings count data. • We selected 10 cases from six case types, for a total of 60 reported cases, and reviewed the relevant case file records to verify that the Court correctly applied the JBSIS definitions for reporting each case filing.

7	Determine whether the Court spent AB 1058 grant awards from the Judicial Council in compliance with the grant award requirements.	We selected one month from fiscal year 2020-21 for each of the Child Support Commissioner and Family Law Facilitator grant awards and obtained the invoices submitted to the Judicial Council to determine whether the Court had sufficient records to support the expenditures charged to the grant. For example, for personnel service costs charged to the grant award, we reviewed the payroll records and employee timesheets to verify the costs and time charged to the grant. We interviewed selected employees to determine how they track and report the time they charged to the grant. We also reviewed other operating costs and expenditures charged to the grant award to determine whether the costs were supported, allowable, and allocable to the grant.
8	Determine whether Enhanced Collections revenue is funding only collections activities.	We obtained the Court’s Collection Report Template for fiscal year 2020-21 and determined whether the Court’s collection program met the minimum requirements for a comprehensive collection program as defined in state law. We identified and analyzed the revenues, expenditures, and transfers ins/outs for Fund 120007 (Enhanced Collections) to verify that Enhanced Collections revenue was used only to fund collections activities. For example, for personnel service costs charged to collections activities, we reviewed employee timesheets to verify the costs and time charged to the enhanced collection program. We interviewed selected employees to determine how they track and report the time they charged to collections activities. We also reviewed other operating costs and expenditures charged to determine whether the costs were supported, allowable, and allocable to collections activities.

Assessment of Data Reliability

The U.S. Government Accountability Office (GAO) requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. In performing this audit, we obtained and reviewed financial transaction data from the Phoenix financial system—the statewide accounting system used by the

superior courts—for the limited purpose of selecting transactions to test the Court’s compliance with its procurement and related payment activities. Prior to making our selections, we independently queried the Phoenix financial system to isolate distinct types of non-personal service expenditure transactions relevant to our testing—such as by general ledger code—and reconciled the resulting extract with the Court’s total expenditures as noted on its trial balance report for the same period. Our analysis noted no material differences leading us to conclude that use of the Phoenix financial transaction data was sufficiently reliable for the limited purpose of selecting transactions for testing.

Report Distribution

The Judicial Council’s *Advisory Committee on Audits and Financial Accountability for the Judicial Branch* reviewed this report on June 29, 2022, and approved it for public release.

California Rules of Court, Rule 10.500 provides for the public access to non-deliberative or non-adjudicative court records. Final audit reports are among the judicial administrative records that are subject to public access unless an exemption from disclosure is applicable. The exemptions under rule 10.500 (f) include records whose disclosure would compromise the security of a judicial branch entity or the safety of judicial branch personnel. As a result, any information meeting the nondisclosure requirements of rule 10.500(f) have been omitted from this audit report.

Audit Staff

This audit was completed by the following staff under the general supervision of Dawn Tomita, Audit Manager:

Joe Meyer, Senior Auditor (auditor in charge), CPA, CIA

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SCHEDULE OF AUDIT FINDINGS AND PLANNED CORRECTIVE ACTION

CASH HANDLING

Background

Trial courts must collect and process customer payments in a manner that protects the integrity of the court and its employees, and promotes public confidence. Thus, trial courts should institute a system of internal control procedures that assure the safe and secure collection, and accurate accounting of all payments. A court's handling of collections is inherently a high-risk activity given the potential incentives for court employees to act inappropriately when mandatory internal controls per the Trial Court Financial Policies and Procedures Manual (FIN Manual) are compromised or not in operation.

During the planning phase of the audit, the Court expressed concerns over us performing on-site fieldwork due to ongoing concerns and uncertainty related to COVID-19. Since our audit procedures rely extensively on in-person observations of key controls, we did not perform this work.

PROCUREMENT AND CONTRACTS

The Court Complied with Applicable Requirements for Procuring Goods and Services

Background

Trial courts are expected to procure goods and services in a manner that promotes competition and ensures best value. To achieve this expectation, the Judicial Branch Contracting Manual (JBCM) and the Trial Court Financial Policies and Procedures Manual provide uniform guidelines for trial courts to use in procuring necessary goods and services and in documenting their procurement practices. Trial courts must demonstrate that their procurement of goods and services are conducted economically and expeditiously, under fair and open competition, and in accordance with sound procurement practice. Typically, a purchase requisition is used to initiate all procurement actions and to document approval of the procurement by an authorized individual. The requestor identifies the goods or services, verifies that budgeted funds are available for the purchase, completes the requisition form, and forwards it to the court manager authorized to approve purchase requests. The court manager is responsible for verifying the necessity and appropriateness of the requested items, that the correct account codes are specified and assuring that funds are available before approving and forwarding the requisition form to the staff responsible for procuring goods and services. Depending on the type, cost, and frequency of the goods or services to be procured, court staff responsible for procuring goods and services may need to perform varying degrees of procurement research to generate an appropriate level of competition and obtain the best value. Court procurement staff may need to also prepare and enter the agreed-upon terms and conditions into purchase orders, service agreements, or contracts to document the terms and conditions of the procurement transaction, and maintain a procurement file that fully documents the procurement transaction.

Our review found that the Court complied with applicable requirements for procuring goods and services. Specifically, the Court demonstrated compliance in various areas we evaluated during our audit, including demonstrating sound management practices in the areas of leveraged purchase agreements, contract terms, and other internal controls.

PAYMENT PROCESSING

The Court Complied with Applicable Payment Processing Requirements

Background

Trial courts must institute procedures and internal controls to ensure they pay for appropriate goods and services in an economical and responsible manner, ensuring that they receive acceptable goods and services prior to payment. Thus, the FIN Manual provides courts with various policies on payment processing and provides uniform guidelines for processing vendor invoices and in-court service provider claims. All invoices and claims received from trial court vendors, suppliers, consultants and other contractors are routed to the trial court accounts payable department for processing. The accounts payable staff must process the invoices in a timely fashion and in accordance with the terms and conditions of the respective agreements. Staff must match all invoices to the proper supporting procurement and receipt documentation, and must ensure approval for payment is authorized by court management acting within the scope of their authority.

Our review found that the Court complied with applicable requirements in the payment processing areas we evaluated during our audit. Specifically, the Court demonstrated sound management practices in the areas of its three-point match, other items of expense, and jury expenses.

FINE AND FEE DISTRIBUTIONS

The Court Calculated Accurate Fine and Fee Distributions for the Case Types Reviewed

Background

Trial courts must accurately calculate and distribute the monies they collect so that State and local funds receive the amounts State law designates for each. State statutes and local ordinances govern the distribution of the fines, penalties, fees, and other assessments that courts collect. In addition, courts rely on the State Controller's Office *Trial Court Revenue Distribution Guidelines* and the Judicial Council *Uniform Bail and Penalty Schedules* to calculate and distribute these court collections to the appropriate State and local funds. Courts may use either an automated system, manual process, or a combination of both to perform the often-complex calculations and distributions required by law.

Our review of its fine and fee distributions found that the Court configured its automated case management systems to accurately calculate and distribute the fines, penalties, assessments, and fees collected to the appropriate funds and entities.

FUND BALANCE

The Court Should Ensure It Includes Only Appropriate Expenses In Its Year-End Encumbrances

Background

State law allows trial courts to retain unexpended fund balance reserves in an amount that does not exceed a defined percentage of a court's prior fiscal year operating budget. Operating budget is defined as the court's total expenditures from all funds (excluding fiduciary funds) that are expended for operating the court. Certain types of funds received by the court and restricted for certain purposes—as specifically designated in statute, and including year-end encumbrances—are exempt from this requirement. The intent of the legislation was to prevent trial courts from accumulating significant fund balances instead of spending the funds on court operations. Audit Services reviews year-end encumbrances to ensure courts do not inflate their calculated fund balance caps by overstating total year-end encumbrance amounts for the current fiscal year, avoiding any required reductions in their budget allocation.

In addition, should a court need to retain funds that exceed its three percent fund balance cap, the Judicial Council adopted a process whereby courts that meet certain specified guidelines may request approval from the Judicial Council to hold excess funds “on behalf of the court.” The request specifies how the funds will be used and requires the court to explain why such spending could not occur through its annual operating budget. If the Judicial Council approves the court's request, the Judicial Council may impose additional terms and conditions that courts must accept, including separately tracking the expenditures associated with these funds held on behalf of the court. As a part of the Judicial Council-approved process for approving funds held on behalf of a court, Audit Service is charged with reviewing funds held on behalf of the courts as a part of its normal court audit cycle to confirm that the courts used the funds for their approved stated purpose.

We identified one audit finding in the fund balance area that we believe requires the Court's corrective action. This finding pertained to the following specific area of fund balance:

Finding Reference	Subject
2021-26-01	Encumbrances

FINDING REFERENCE: 2021-26-01

ENCUMBRANCES

CRITERIA

FIN MANUAL, FIN 5.01, 6.6, 6.6.1, ENCUMBRANCE GUIDELINES:

1. To encumber current fiscal year money, courts must have a valid contract or agreement by June 30 of the current year. Contracts may be encumbered with current year funds as of the execution date, if the contract does not state or imply a delay in delivery to the next fiscal year. For multiyear agreements, courts must follow the rules in paragraph 3.

3. Multi-year agreements, which span more than one fiscal year, may be encumbered (1) totally to the year in which the agreement is executed, or (2) to more than one budget year, depending on the funding authority and the nature of the expense, as described below:
 - a. Annual Recurring Operating Costs. The annual state budget includes an appropriation for trial court operations that covers the current fiscal year. This appropriation is generally intended to support a court's operational expenditures for that specific fiscal year. To the extent that annually recurring operating expenses are incurred through a multiyear agreement, each year's expenses must be encumbered against the budget year in which the goods or services are received. Examples of annually recurring expenses include leases, janitorial services, security services, and annual subscriptions.
 - b. Nonrecurring Costs. To the extent that certain costs are nonrecurring, where the goods or services are provided through a multiyear agreement, the contract's costs must be encumbered either totally against the budget year in which the agreement is executed or to more than one budget year, depending on the delivery date, per paragraph c. Examples of nonrecurring goods and services include a case management system replacement project and a one-time consultant contract for a specific purpose that might take multiple years or cross fiscal years.

FIN MANUAL, FIN 5.01, 6.8, 6.8.3, YEAR-END ENCUMBRANCES:

1. The trial court must review the ending balances for all open POs, MOUs, IBAs, and contracts and the related encumbrances for validity. Unneeded encumbrance balances, including balances for blanket purchase orders that will not be used by the end of the fiscal year (June 30), must be disencumbered and the disencumbrance must be recorded in that fiscal year.

CONDITION

At the end of fiscal year 2020-21, the Court reported encumbrances of nearly \$1.2 million. Audit Services reviewed the supporting purchase orders, contracts, and accounting records for a selection of individual encumbrances supporting this total. The results of our analysis caused us to question 3 of 15 encumbrances selected during our review (or roughly \$580,000 of the \$1.2 million in reported encumbrances). When a court overstates encumbrances at year-end, it has the effect of reducing the Court's fund balance subject to the 3% statutory cap and can protect or limit the Court's exposure to budgetary reductions by the Judicial Council in the subsequent fiscal year.

At FY 2020-21 year-end, the Court incorrectly reported/overstated encumbrances of:

- ***\$361,559 for court security screening services.*** The Court's contract originally covered security screening services for January through June 2021 and was correctly encumbered (at that time) against Budget Year 2020-21. However, towards the end of the fiscal year (and at the end of the contract's performance period) the Court had a significant encumbrance balance remaining on this contract. On June 22nd, the Court amended the contract to extend services for another six months (through December 2021 in the next fiscal year), but the Court continued to encumber the full amount against Budget Year 2020-21. Per the FIN Manual, recurring operating costs must be encumbered against the budget year in which the goods or services are received. Encumbering Budget Year 2020-

21 funds for services provided in the following fiscal year 2021-22 is inconsistent with the FIN Manual. At FY 2020-21 year-end, the Court should have disencumbered the portion pertaining to services that were to be provided in the next fiscal year and established a new encumbrance tied to Budget Year 2021-22 (covering services for July through December 2021).

- ***\$207,840 for case management system maintenance costs.*** The Court’s contract with its CMS vendor calls for “Annual Maintenance and Support Fees” that are due annually in advance. The Court’s purchase order encumbering this amount specifies a delivery date of November 30, 2022 (i.e. fiscal year 2022-23), which seems inconsistent with the Court’s decision to encumber this amount against Budget Year 2020-21. Further, the Court’s accounting records and year-end accrual worksheet show no spending against this encumbrance during fiscal year 2020-21, which further supports the conclusion that these encumbered CMS maintenance costs pertained to a subsequent fiscal year. Recurring operating costs, such as CMS maintenance costs, must be encumbered against the budget year in which goods or services are received. The Court should not have encumbered Budget Year 2020-21 funds for CMS maintenance services that did not take place during that same year.
- ***\$10,500 for advisory services.*** The Court had a multi-year contract for deferred compensation advisory services and the contract requires billing on a calendar-year basis. The Court encumbered \$21,000 to Budget Year 2020-21 for services between January – December 2021. However, one-half of this amount (or \$10,500 for the portion of services provided in July – December 2021) should have been encumbered to the next year, Budget Year 2021-22.

Beyond these three examples, our review also noted two other encumbrances where the services and/or delivery dates were not clearly noted on the purchase order or other documents, which prevented us from evaluating whether the Court’s reporting of these encumbrances at the end of Fiscal Year 2020-21 was appropriate. In one instance, the Court reported an outstanding encumbrance of \$35,665 for IT services, but neither the contract nor PO specified the delivery dates or performance periods covered by this encumbered amount. Therefore, we could not determine if the encumbered amounts (or which portion thereof) pertained to a specific Budget Year. In another example, the Court encumbered \$12,669 for after-hours telephone answering services; however, it was not readily apparent from the purchase order or contract the portion applicable to Budget Year 2020-21 versus another year.

RECOMMENDATION

The Court should review the FIN Manual’s encumbrance policies and take steps to ensure encumbrances are consistently assigned to the Budget Year in which the goods or services are received. These steps might include establishing different purchase orders for different Budget Years, or using different lines within the same purchase order to designate the proper Budget Year for a given delivery date or performance period.

COURT'S VIEW AND CORRECTIVE ACTION PLAN

\$361,559 for court security screening services.

Disagree. Under normal circumstances, the Court would agree. Santa Barbara Superior Court faced multiple challenges during the pandemic. Not all the costs associated with this agreement were recurring operating costs. The Court's amendment that indicated that COVID-19 screening services would no longer be needed applied only to temperature screening. The Court incurred extraordinary costs due to COVID-19 that it never had before: \$54,808 was encumbered to operate a new screening station in the Historic (Anacapa) Courthouse which was closed by the County to keep the public out of the building due to COVID-19. The Court encumbered additional funds in the amount of \$11,172 for security screening services to operate at an off-site facility for jury selection due to COVID-19 case backlog and COVID-19 space requirements. The Court spent \$274,173 in fiscal year 2020-21 for COVID-19 security screening services. Based on this, up to \$137,085 in non-recurring costs could have been spent on COVID-19 security screening services July through December 2021, especially considering that at the time the Court was closing its books, COVID-19 infections began to rise, as the Delta variant was beginning to spread in Southern California. Planning was dependent on the pandemic and security screening services were heavily impacted. Only \$158,494 of this agreement could be designated as known recurring operating costs.

\$207,840 for case management system maintenance costs.

Disagree. November 30, 2022 is the end date of the maintenance and should not have been entered as the delivery date. The Court planned to make an advanced payment for the maintenance service in accordance with the Judicial Branch Contracting Manual, Chapter 9 Disbursements and Payment Programs, Section 9.1 Disbursements, B. Advance Payments; however, the Court did not receive the invoice until November 15, 2021. The Court will work with the vendor on timing of invoices and will review purchase orders to ensure the correct delivery date is recorded.

\$10,500 for advisory services.

Agree. The Court accepts this finding which was due to an error at time of entry by the requisitioner. The original requisitioner entered the contract terms using the calendar year contract amounts, rather than breaking them down by fiscal year amounts due. The Court has since liquidated the amount which was entered in error, and the Accounting Supervisor will add a secondary review to the process.

Response provided on 04/28/2022 by: Patrick Ballard, Chief Financial Officer

Date of Corrective Action: Immediately

Responsible Person(s): Ammon M. Hoenigman, Accounting Supervisor

AUDIT SERVICES' COMMENTS ON COURT'S VIEW

To provide clarity and perspective, we are commenting on the Court's response. By encumbering next year's costs against the current year's budget, the Court inappropriately limits the amount of fund balance at year-end that is subject to the 3% limit imposed by

statute and Judicial Council policy. Further context surrounding the Court's specific disagreements are provided below.

Screening services – Just eight days before the end of fiscal year 2020-21, the Court extended the contract's service period through December 31, 2021 (i.e. into the following FY 21-22) and the vendor executed this amendment on July 7, 2021. Since the remaining goods and services on the amendment were not going to be provided until FY 21-22, the Court should have encumbered the remaining amount against Budget Year 21-22 funds. The Court cites the pandemic as the need for flexibility since Covid-related screening is not a recurring court cost. However, the Court's amendment indicated that Covid screening services would no longer be needed. Further, as of early May 2022 (or 11 months later) the Court has yet to fully liquidate this encumbrance. For clarity, we do not question the legitimacy of the expense, but instead question the budget year against which the Court encumbered these funds.

CMS maintenance – CMS maintenance costs are a recurring court expense and the FIN manual requires these expenses be encumbered against the year in which goods or services are provided. The Court pays CMS maintenance costs in advance (as noted in its response) and encumbered \$207,840 against Budget Year 2020-21. However, these CMS maintenance services were not provided in 2020-21. Our point is the Court should not have encumbered Budget Year 2020-21 funds for services provided in subsequent years (specifically for a CMS maintenance period running from December 2021 through November 2022).

JBSIS CASE FILING DATA

The Court Reported Materially Accurate Case Filing Counts and Data to JBSIS

Background

The Judicial Branch Statistical Information System (JBSIS) is a reporting system that defines and electronically collects summary information from court case management systems for each major case processing area of the court. JBSIS directly supports the technology goals of the Judicial Council's strategic plan, providing information for judicial branch policy and budgetary decisions, management reports for court administrators, and the Judicial Council's legislative mandate to report on the business of the courts. Authorization for JBSIS is found in California Rules of Court, rule 10.400: "Consistent with article VI, section 6 of the California Constitution and Government Code section 68505, JBSIS is established by the Judicial Council to provide accurate, consistent, and timely information for the judicial branch, the Legislature, and other state agencies that require information from the courts to fulfill their mandates. Each trial court must collect and report to the Judicial Council information according to its capability and level of automation as prescribed by the JBSIS Manual adopted by the Judicial Council..." The Court Executives Advisory Committee is responsible for oversight of this program.

Our review found that the Court's records materially supported the new case filing counts and data it reported to the Judicial Council's Office of Court Research through JBSIS for fiscal year 2019-20.

GRANT AWARD COMPLIANCE

The Court Followed Appropriate Grant Accounting and Administrative Procedures

Background

Grant fund awards may substantially benefit a trial court's ability to serve the public. At the same time, the acceptance of grant funds may also represent an area of risk to the court because the grant money received by the court is provided for specific purposes and under conditions that apply to its use. Noncompliance with the terms of significant grant awards may result in the Court losing access to this grant funding in future years, or may result in the Court repaying funds spent inappropriately.

Courts are responsible for separately accounting for its receipt and spending of grant funds in Phoenix by using the appropriate grant coding. Courts are also responsible for following applicable federal, state, or Judicial Council rules when administering grant funds. These rules may pertain to performance reporting, financial reporting, personnel time tracking, among other areas.

Our review of its grant administration practices found that the Court followed appropriate grant accounting and administrative procedures and demonstrated material compliance with the Child Support Services grant and the Family Law Facilitator grant (AB 1058 program components) terms and conditions.

ENHANCED COLLECTIONS

The Court Appropriately Recovered Costs for its Enhanced Collections Program

Background

Penal Code section 1463.010(a) requires the Judicial Council to adopt guidelines for a comprehensive program concerning the collection of monies owed for fees, fines, forfeitures, penalties, and assessments imposed by court order. In addition, as part of its guidelines, the Judicial Council may establish standard agreements for entities to provide collection services. Section (b) requires courts and counties to maintain the collection program that was in place on January 1, 1996, unless otherwise agreed to in writing by the court and county. The program may be in whole or in part staffed and operated in the court itself, in the county, or contracted with a third party. Also, in carrying out its collection program, each superior court and county is required to develop a cooperative plan to implement the Judicial Council guidelines. Section (c) requires the Judicial Council to develop performance measures and benchmarks to review the effectiveness of the cooperative superior court and county collection programs operating pursuant to this section. Further, it requires each superior court and county to jointly report to the Judicial Council information requested in a reporting template on an annual basis.

The standards by which a court or county may recover the costs of operating a comprehensive collection program are provided in Penal Code section 1463.007. Collection costs (with the exception of capital expenditures) may be recovered from the collection of delinquent court-ordered fines, fees, forfeitures, penalties, and assessments imposed on infraction, misdemeanor, and felony cases before revenues are distributed to any other government entity. A comprehensive collection program is a separate and distinct revenue collection activity that meets certain requirements and engages in certain collection activity components as defined in state law. Eligible costs that can be recovered include staff costs, costs paid to another entity under an agreement for their collection activities, and indirect costs.

Our review found that the Court had a qualified enhanced collections program. Furthermore, we found that the Court appropriately recovered only eligible collection costs.

OTHER AREAS

Background

We did not identify any other significant areas during the initial audit planning process that, based on our professional judgement, warranted any additional audit work. Therefore, we did not review compliance with any other areas.
