



Judicial Council of California . Administrative Office of the Courts

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on April 25, 2014

Title	Agenda Item Type
Judicial Branch Administration: Audit Report for Judicial Council Acceptance	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	April 25, 2014
Recommended by	Date of Report
Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch	April 15, 2014
Hon. Richard D. Huffman, Chair	Contact
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Executive Summary

The Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch (A&E) and the Administrative Office of the Courts (AOC) recommend that the Judicial Council accept the audit report entitled *Audit of the Superior Court of California, County of Yuba*. This acceptance is consistent with the policy approved by the Judicial Council on August 27, 2010, which specifies Judicial Council acceptance of audit reports as the last step to finalization of the reports before their placement on the California Courts public website to facilitate public access. Acceptance and publication of these reports promote transparent accountability and provide the courts with information to minimize future financial, compliance, and operational risk.

Recommendation

A&E and AOC recommend that the Judicial Council, effective April 25, 2014, accept the following “pending” audit report:

1. Audit report dated August 2013 entitled: *Audit of the Superior Court of California, County of Yuba.*

This acceptance will result in the audit report progressing from “pending” status to “final” status, and publishing the final report on the California Courts public website.

Previous Council Actions

The Judicial Council at its August 27, 2010, business meeting approved the following two recommendations, which established a new process for review and acceptance of audit reports:

1. Audit reports will be submitted through the Executive and Planning Committee to the Judicial Council. Audit reports will not be considered “final audit reports” until formally accepted by the council.
2. All final audit reports will be placed on the California Courts public website to facilitate public access. This procedure will apply to all audit reports accepted by the Judicial Council after approval of this recommendation.

Since August 2010 audit reports have been submitted to the Judicial Council for acceptance.

Rationale for Recommendation

Council acceptance of audit reports submitted by A&E through the Executive and Planning Committee is consistent with its policy described above and with its responsibility under Government Code section 77009(h), which states that “[t]he Judicial Council or its representatives may perform audits, reviews, and investigations of superior court operations and records wherever they may be located.”

A&E Committee Comments

A&E reviewed the report and recommended this audit report be on discussion agenda with particular attention and discussion focused on:

- the issues contained in the Management Summary, including the significant level of improper accounting for financial transactions;
- the significant number (117) of issues identified in the audit, with the lack of correction of most of the issues from the date of the audit exit in August 2013 to the date of the committee’s review (including the February update requested by the Committee where only 18 more were corrected for a total corrected of 52);
- the number of repeat issues with many in the accounts payable area; and
- concerns about Court management’s ability to address all of the issues on a timely basis and ensure that the issues do not reoccur based.

The concerns of the committee were based on the issues according to IAS becoming more pronounced subsequent to the retirement of the deputy executive officer the previous year and the court apparently not replacing her. This individual provided some of the operational and accounting skill sets necessary to attempt to address the audit issues identified.

Internal Audit Services (IAS) discussed the following specific areas of concern with A&E from its audit report.

1. Deficiencies in the accounting for financial transactions.

As reported in the Management Summary of the audit report, reviewed the general ledger account balances and the accounting treatment of a limited number of financial transactions and determined that the Court misclassified in its accounting system monies held be the county Treasurer's Office or in outside bank accounts, therefore, the Court inappropriately reported these monies in the Court's financial statements. In section 4 of the report IAS provides detail concerning this improper reporting that includes agency money held as trust money, special revenue money held as trust money, and enhanced collection money in an outside bank account not reported but required to be reported as agency money in the Court's financial statements. Additionally, the Court did not prepare a detailed reconciliation of county Fund 103 to its respective general ledger account.

While the Court agreed with the issues identified, IAS believes that the Court's response that corrections are scheduled to be completed by May 2014 is not as timely as it should be based on the nature of the issues and their importance. While the Court has a number of initiatives that it is working on (new payroll provider, case management system procurement, etc.) the correction of these issues are important and should be done on a more timely basis.

2. Court's expansion of enhanced collections work.

The Court has established an in-house comprehensive collections program, and uses the services of a third-party collection agency. Additionally, the Court provides collections services to the County for other matters. The expansion of collection work appears to have been done without a cost-benefit analysis to determine whether these other collection efforts were cost effective and appropriate for the Court to do with policy. Specifically, IAS pointed out concerns regarding the 10 percent incentive monies from the Restitution Fund collections and the ability to have the costs of the work be fully recovered.

The Court agreed with the issues identified and is reviewing the matters to determine whether the work is appropriate and warranted.

3. Certain collection calculations and distributions have not been done accurately.

The audit of the Court's process for calculating and distributing the fines, penalties, fees, and other assessments it collects identified case management system calculation errors, the lack of timely implementation of statutory changes, installment distribution priority errors, etc. The Court is part of an initiative to change its case management system, will make the

complex programming changes to correct the identified calculation errors, and has requested assistance from IAS to provide consultative advice on technical distribution issues.

The audit focused on high-volume case types and on cases with violations involving complex or special distributions where there is a greater likelihood of error. Distribution errors have been identified as a systemic issue with courts as similar issues have been identified to varying degrees in every audit report presented to the Judicial Council for acceptance. This systemic issue has resulted in increased attention by the AOC. Last year the AOC held distribution training for courts throughout the state. This year, the AOC will again partner with the California State Controller's Office to expand training on a statewide basis for courts, counties, educational institutions, and others. Reference materials and calculation templates were provided to all training participants.

4. Travel and business meal expenditure issues.

The Court needs to improve its procedures for documenting, reviewing, and approving travel and business meal expenditures. Many of the issues identified in this audit area are repeat issues from the prior audit. The Court has responded to the issues identified in this area with corrective action to most of the recommendations.

Comments and policy implications

The process established for finalizing an audit report, a process that has been thoroughly discussed with judicial branch leadership, involves extensive reviews and discussions with the entity being audited. It also allows, at any point in the process, for the entity (trial courts generally) to request an additional review of the draft audit report by the Chief of Staff before the audit report is placed in a pending status and presented to A&E for review and discussion. Once presented to A&E, additional comments from A&E could result in further discussions with the entity being audited before the committee recommends submission of the report to the council for acceptance.

In its review of audit reports, A&E generally has comments and questions that, in some cases, require additional analysis or discussion with the trial courts. IAS ensures that the results of any analysis, comments, and questions are addressed and provided to A&E.

Additionally, the Judicial Council, in December 2009, adopted rule 10.500 of the California Rules of Court, effective January 1, 2010, which provides for public access to nondeliberative or nonadjudicative court records. Final audit reports are among the judicial administrative records that are subject to this 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, confidential or sensitive information that would compromise the security of the court or the safety of judicial branch personnel is omitted from audit reports. In accordance with auditing standards, disclosure of the omissions is included in the applicable reports.

Alternatives

No alternatives were considered because the recommendation is consistent with approved council policy and with the provisions of Government Code section 77009(h).

Implementation Requirements, Costs, and Operational Impacts

The proposed recommendation imposes no specific implementation requirements or costs, other than disclosure of the attached audit reports through online publication.

Relevant Strategic Plan Goals and Operational Plan Objectives

The recommendation contained in this report pertains to the activities of IAS and the role it plays in the judicial branch as an independent appraisal entity. IAS's role as an evaluator is important for both the strategic plan and the operational plan of the judicial branch. Specifically, IAS plays an important role as evaluator under Goal II, Independence and Accountability—in particular Goal II.B.4—by helping to “[e]stablish fiscal and operational accountability standards for the judicial branch to ensure the achievement of and adherence to these standards.” Additionally, IAS has an important role in fulfilling several of the objectives of the operational plan related to Goal II because its work pertains to the requirement that the branch “maintain the highest standards of accountability for its use of public resources and adherence to its statutory and constitutional mandates.” Part of the role and responsibility of IAS also relates to Objective II.B.4 because the audit reports it produces help to “[m]easure and regularly report branch performance.”

Attachments

There are no attachments to this report. The following audit report will be placed on the California Courts public website (<http://www.courts.ca.gov/12050.htm>) after the Judicial Council has accepted it:

1. Audit report dated August 2013 entitled: *Audit of the Superior Court of California, County of Yuba.*