



## Judicial Council of California . Administrative Office of the Courts

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# REPORT TO THE JUDICIAL COUNCIL

For business meeting on June 27, 2014

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Title	Agenda Item Type
Judicial Branch Administration: Audit Report for Judicial Council Acceptance	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	June 27, 2014
Recommended by	Date of Report
Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch	May 13, 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 Committee) 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 Sutter*. 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**

The A&E Committee and AOC recommend that the Judicial Council, effective June 27, 2014, accept the following “pending” audit report:

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

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 the A&E Committee 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**

The A&E Committee reviewed the report and recommended this audit report be on consent agenda. The A&E Committee focused particular attention and discussion on:

- The significant number (113) of issues identified in the audit but there was a particularly high number and percentage (77 or 68%) corrected at the time the final exit was held. The A&E Committee did note that low number and percentage (22 or 19%) of issues considered significant verses those of lower risk and only reported in the appendix (91 or 81%). This does mitigate some of the concern with the lack of timely correction.
- The number of repeat issues (4) in the accounts payable / invoice review and approval process.
- The larger than normal information systems issues, specifically the issues related to systems access, business continuity and disaster recovery plans, and storage of media. Many of these issues were redacted from the report to be posted on the California Courts

Web site due to the sensitivity of the issues according to audit standards and Judicial Council policy.

- Travel expense claims and business-related meals which contained issues relating to reimbursement for alcoholic beverages and retirement celebrations contrary to policy.

Internal Audit Services (IAS) discussed the following specific areas of concern that are primarily from the Management Summary of the audit report with the A&E Committee.

1. Deficiencies in invoice payment processing.

IAS review of selected invoices and claims found that the Court did not consistently follow the *Trial Court Financial Policies and Procedures Manual* (FIN Manual) procedures for processing the invoices and claims we reviewed. For example, an employee not authorized to approve payments approved several invoices and claims for payment. In addition, the Court processed for payment other invoices that did not contain any signatures or initials indicating approval of the payment and claims contained alcoholic beverages were reimbursed contrary to policy.

The Court asserts that due to the small size of the Court and loss of staff due to workforce reductions, it is occasionally difficult to meet all guidelines. Nonetheless, the Court agreed with the audit recommendations and asserted that corrective action was taken to address almost all of the noted issues.

2. Business-related meal expense deficiencies.

The FIN Manual acknowledges that it is necessary for trial court judges and employees to occasionally conduct official court business during a meal. Thus, Policy No. FIN 8.05 defines the rules and limits that courts must observe when arranging or claiming reimbursement for meals associated with official court business. Specifically, to be reimbursable, these business meals must have the written advance approval of the presiding judge (PJ) or, if delegated in writing, the Court Executive Officer (CEO) or another judge. This policy also contains information regarding the specific requirements for allowable business meal expenses.

Our review of selected business-related meal expenditure transactions revealed that the Court needs to improve its procedures to adequately justify its business-related meal expenditures. Specifically, the Court did not complete a standard business-related meal form containing all the pertinent information required by the FIN Manual for all four business-related meal expenditures we reviewed. As a result, the Court could not demonstrate that some of the business-related meal expenditures we reviewed were pre-approved by the PJ, CEO, or designee. In addition, the Court paid for business meal expenses that were related to retirement celebrations which the FIN Manual specifically prohibits.

The Court agreed with the audit recommendations and asserted that corrective action was taken to address almost all of the noted issues.

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

The Court did not distribute certain collections as prescribed by statutes and guidelines. State statutes and local ordinances govern the distribution of the fines, fees, penalties, and other assessments that courts collect. The Court uses its case management system to assess and distribute the fines and fees it collects, and prepares at month-end a report of revenues collected. Our review of certain standard distribution tables used by the Court identified various calculation and distribution errors. For example, the Court did not transfer the two-percent State Automation amount from the base-fine reductions for the proof of insurance distribution we reviewed. As a result, the Court made up the shortfall by adjusting its distribution of the State Penalty Assessment, the DNA Additional Penalty Assessment, and the 20 percent State Surcharge.

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.

The Court agreed with the audit recommendations and asserted that corrective action was taken to address all of the noted issues.

IAS will on a periodic basis request from the Court the status of the correction of the issues identified in the audit report. It will report this status to the AOC Executive Office and the A&E Committee, as appropriate.

**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 November 2013 entitled: *Audit of the Superior Court of California, County of Sutter.*