



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

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# REPORT TO THE JUDICIAL COUNCIL

For business meeting on July 29, 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	July 29, 2014
Recommended by	Date of Report
Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch	July 2, 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 Marin*. 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 August 22, 2014, accept the following “pending” audit report:

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

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 lack of a large number (69) of issues identified in the audit and the number and percentage (47 or 68%) corrected at the time the exit was held. While the A&E Committee did also note a higher than normal number and percentage (30 or 43%) of issues considered significant verses those of lower risk that are only reported in the appendix (39 or 57%). IAS was not concerned about this as it was mitigated by the significant number of issues corrected.
- The lack of repeat issues (2) from the prior audit.
- 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 their sensitivity. This complies with 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. Accounting For Financial Transactions

Internal and external users of court financial information depend on reliable court financial data and reports to obtain the information they need to evaluate each court's finances. Accordingly, the FIN Manual establishes uniform guidelines and accounting principles for courts to follow when gathering, summarizing, and reporting accounting information associated with the fiscal operations of each court. The FIN Manual requires courts to comply with the basic principles of accounting and reporting that apply to government units. It also requires that courts execute and account for financial transactions in conformity with generally accepted accounting principles and legal requirements.

To determine whether the Court properly recorded, classified, and reported its financial transactions, IAS reviewed the Court's general ledger account balances and its accounting treatment of a limited number of financial transactions. Our review determined that the Court did not always properly account for and report its financial transactions.

- a. Based on inaccurate guidance from the AOC, the Court incorrectly recorded OPEB prefunding of \$1.6 million as a deposit in trust (fund 500010). Courts constantly seek guidance from the AOC for various operational and technical matters and IAS believes this was an isolated occurrence. Since the Court already recorded the expenditure and transferred the amount into an externally administered irrevocable trust, recording the prefunding amount in a trust fund overstated its trust balance.
- b. The Court did not record certain fee revenues in the appropriate funds. A few legally restricted local fees were recorded in the general fund and one fee revenue account was incorrectly recorded in a special revenue fund.

The Court agreed with the audit recommendations and indicated that while it had relied on AOC guidance to account for the items noted, it has taken action to correct the issues.

2. Procurement, Accounts Payable, and Reimbursement Controls and Processes

As stewards of public funds, courts are obligated to demonstrate responsible and economical use of public funds. Judicial branch entities including superior courts must comply with the procurement and contracting policies and procedures provided in the JBCM. The FIN Manual provides courts with policy and procedures to ensure courts process invoices timely and in accordance with the terms and conditions of agreements. Additionally, statute and policy requires court judges and employees to follow business-related travel reimbursement procedures recommended by the Administrative Director of the Courts, approved by the

Judicial Council, and incorporated into the FIN Manual. Lastly, the FIN Manual defines the rules and limits courts must observe when arranging or claiming reimbursement for meals connected to official court business.

IAS reviewed the Court's controls and processes in procurement, accounts payable, and reimbursement for business travel and business meals; and noted numerous issues which IAS generally considered lower risk. These issues included:

- a. The Court's actual purchasing and payment approval practices were not consistent with its approved authorization matrix. During our review of select purchases, we identified some purchases, including p-card purchases that were approved by managers and a supervisor not listed on the matrix. Additionally, individuals who may approve requisitions in the financial system were set up with limits that were higher than the thresholds provided in the authorization matrix.
- b. The Court could not demonstrate that certain purchases were approved by authorized individuals within their approval limits.
- c. The Court did not establish purchase orders in the financial system to encumber funds for all contracts and purchases in excess of \$500.
- d. The Court did not document its higher purchase card limits, and two of ten transactions tested exceeded the \$1,500 JBCM per transaction limit.
- e. The Court did not engage in competitive procurement practices for 7 of 20 procurements reviewed that exceeded \$5,000. Most of these purchases were to renew, extend, or continue obtaining services with existing vendors. Although the Court may have reasonable justifications for automatically renewing some agreements, it did not document these sole source justifications.
- f. All seven expense reimbursements for conferences, training, or classes were not supported by proof of attendance.
- g. The Court's labor agreement requires lunch reimbursement practices for employee travel out of county of less than 24 hours contrary to statute and Judicial Council policy.
- h. Business meals expenditures were not properly documented to evidence appropriate pre-approvals and demonstrate compliance with authorized timeframe requirements, and exceeded the authorized meal rate.
- i. An annual employee recognition event was not entirely funded by judicial officers as it included some Court funds.

The Court generally agreed with the audit recommendations for procurement, accounts payable, and travel expense and business meal reimbursements; and indicated it has or will take corrective action.

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 sample cases collected and distributed by the Court identified

various calculation and distribution errors on both the CJIS (criminal CMS) and JURIS (traffic CMS).

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 generally agreed with the audit recommendations and indicated taking corrective action to address the noted issues. There were two situations where the Court did not make the necessary adjustments to its CMS. In the first situation the Court felt that changes to reprogram the system were very difficult and extremely costly to do with only a minor impact on the final distributions. In the second situation where a top-down approach was necessary due to a reduced, or specific, judge-ordered fines, the Court felt that using the methodology recommended in the few instances where this occurred would be time consuming, subject to increased error, and would result in immaterial differences in the distribution. It was recommended that the Court adjust for these situations in the next reprogramming of the systems

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 October 2013 entitled: *Audit of the Superior Court of California, County of Marin.*