



JUDICIAL COUNCIL OF CALIFORNIA

455 Golden Gate Avenue · San Francisco, California 94102-3688

www.courts.ca.gov

REPORT TO THE JUDICIAL COUNCIL

For business meeting on: February 19, 2015

Title	Agenda Item Type
Judicial Branch Administration: Audit Report for Judicial Council Acceptance	Action Required
Rules, Forms, Standards, or Statutes Affected	Effective Date
None	February 19, 2015
Recommended by	Date of Report
Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch	February 6, 2015
Hon. Richard D. Huffman, Chair	Contact
	John A. Judnick, 415-865-7450 john.judnick@jud.ca.gov
John A. Judnick, Senior Manager Audit Services Judicial Council and Court Leadership Services Division	

Executive Summary

The Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch (A&E Committee) and Judicial Council staff recommend that the Judicial Council accept the audit report entitled *Audit of the Superior Court of California, County of Nevada*. 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 Judicial Council staff recommend that the Judicial Council, effective February 19, 2015, accept the following “pending” audit report:

- Audit report dated July 2014 entitled: *Audit of the Superior Court of California, County of Nevada*

This acceptance will result in the audit report progressing from “pending” status to “final” status, and the publication of 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 at its February 4, 2015 meeting reviewed the report and recommended the audit report be on discussion agenda. The A&E Committee’s recommendation is primarily based on:

- Nevada Superior Court (Court) has a relatively high number (182) of issues in the report with 80 or 44% reported by the Court as corrected at the end of the audit.
- There are a significant number of issues in high risk areas such as cash collections (manual receipts, segregation of duties, and transaction processing controls), systems access, and accounts payable.
- A relatively higher than expected number of repeat issues (17) with concentrations in the higher risk areas of cash collections (6) and accounts payable (4).
- Accounting issues regarding financial transactions and reports.

Audit Services (AS) discussed the following specific issues from the Management Summary of the audit report and other audit concerns with the A&E Committee.

- The Court needs to improve its cash handling practices and controls with specific improvements necessary including the control and oversight of manual receipts, sharing of cash drawers, segregation of duties, and transaction reversal review and approval.
- Management oversight of systems access needs to be strengthened to ensure access is periodically reviewed for privileged accounts, network and case management access is commensurate with the job being performed, access changes are only done by authorized individuals, and individual access is removed on a timely basis for individuals no longer needing the access.
- Financial transactions and reports need to be carefully reviewed to ensure they are accurate, recorded in the proper general ledger accounts, and do not misstate the financial status of the Court. The concerns include:
 - ✓ Ensuring that bail and civil trust accounts reconciliations are done properly and on a timely basis.
 - ✓ Properly reporting of dispositions of fixed assets and lease expenditures.
 - ✓ Reviewing the financial statement effects of transaction reversals.
 - ✓ Ensuring only allowable expenses are paid from court operations funds.
- Invoice review and approval practices need to be strengthened as the audit identified issues such as:
 - ✓ Approvals were not documented in many of the invoices reviewed.
 - ✓ Invoice approvals were done by individuals not on the authorization matrix.
 - ✓ The same individual authorizing purchases approved payment.
 - ✓ The three point match between the procurement document, invoice, and receiving documents was not properly done or documented. Our review noted examples where the invoice payment amounts did not agree with the procurement documentation.
- Judicial officers were not accurately or consistently imposing the statutorily required domestic violence fines and fees.

AS will contact the Court on a periodic basis to follow-up on the status of the corrective action taken for the incomplete issues identified in the audit report. The Court should monitor the reported issues and the corrective actions taken to ensure that the issues remain corrected and the Court's system of internal controls is not jeopardized. Audit Services will report this status to the Executive Office and the A&E Committee, as appropriate.

Comments and policy implications

The process established for finalizing an audit report has been thoroughly discussed with judicial branch leadership, and 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 the A&E Committee for review and discussion. Once presented to the A&E Committee, additional comments from the A&E Committee 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, the A&E Committee may have comments and questions that, in some cases, require additional analysis or discussion with the trial courts. AS ensures that the results of any analysis, comments, and questions are addressed and provided to the A&E Committee.

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 AS and the role it plays in the judicial branch as an independent appraisal entity. AS'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 AS 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 July 2014 entitled: *Audit of the Superior Court of California, County of Nevada.*

