



JUDICIAL COUNCIL OF CALIFORNIA

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on February 25–26, 2016

Title

Judicial Council: Performance Audit Report
of the Council’s Fiscal Compliance for Fiscal
Year 2013–2014

Agenda Item Type

Information Only

Date of Report

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Submitted by

Advisory Committee on Financial
Accountability and Efficiency for the
Judicial Branch
Hon. Kathleen E. O’Leary, Chair

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Executive Summary

In August 2015, the State Department of Finance, Office of State Audits and Evaluations, released a performance audit report entitled *Judicial Council of California’s Fiscal Compliance for the Fiscal Year July 1, 2013 through June 30, 2014*. The audit was required to be performed under Government Code section 77206(i)(1). The report contained five recommendations to which the Administrative Director responded, and those responses were included in the report. The audit concluded that the “revenues, expenditures, and fund balances subject to the administration, jurisdiction, or control of Council staff complied with governing statutes, rules, regulations, and policies; were recorded accurately in accounting records, and were maintained in accordance with fund accounting principles.”

Previous Council Action

At its January 15, 2016, meeting, the Advisory Committee on Financial Accountability and Efficiency for the Judicial Branch (A&E Committee) was presented with and discussed the

performance audit conducted by the State Department of Finance, Office of State Audits and Evaluations (OSAE). The A&E Committee recommended that the report be presented to the Judicial Council in accordance with Government Code section 77206(i)(2) requirements:

. . . the auditing entity shall provide a copy of the final audit report of the Administrative Office of the Courts to the Legislature, the Judicial Council, and the Department of Finance upon issuance.

In 2010, the Administrative Director of the Courts directed Judicial Council (then, Administrative Office of the Courts) staff to request OSAE to perform an audit to determine whether fiscal controls were adequate for authorizing, processing, and paying expenditures during the period July 1, 2009, through June 30, 2010.

Methodology and Process

Government Code section 77206(i)(1) states the following:

On or before December 15, 2013, and biennially thereafter, the entity contracted with pursuant to subdivision (j) shall perform an audit of the Administrative Office of the Courts in accordance with generally accepted government auditing standards and shall determine the Administrative Office of the Court's compliance with governing statutes, rules, regulations, and policies relating to the revenues, expenditures, and fund balances of all material and significant funds under the administration, jurisdiction, or control of the Administrative Office of the Courts.

The objectives of the audit as specified in the report were to determine whether:

- Revenues were consistent with authorizing Government Codes, properly supported by documentation, and recorded accurately in the accounting records;
- Expenditures were incurred pursuant to authorizing Government Codes consistent with the fund's purpose, properly authorized, adequately supported, and recorded accurately in the accounting records; and
- Fund balances were reported based on the Legal/Budgetary basis of accounting and maintained in accordance with fund accounting principles.

OSAE did not review revenues and expenditures that were audited by other audit organizations, including but not limited to the State Controller's Office, the California State Auditor, or the Judicial Council's Audit Services office.

Judicial Council staff provided OSAE with detailed schedules of expenditures from the staff's Oracle general ledger for three fiscal years by division and office. Additionally, OSAE received a listing by fund, program, and account of the judicial branch budget based on the Budget Act.

Using this listing, council staff indicated which accounts it believed were under its administration and/or control. Council staff did not use the term *jurisdiction*—which the statute contains—in this assessment because the word could be interpreted differently by parties and it would be questionable to try to clarify or specify these accounts.

The Judicial Council uses the Oracle accounting system for itself and for other judicial branch entities, such as the Supreme Court, Courts of Appeal, Habeas Corpus Resource Center, and Commission on Judicial Performance. The statute specifically identifies the audit is of the Judicial Council and not of those other judicial branch entities.

Judicial Council staff identified accounts for which the entity/program has authorized the staff to directly approve certain transactions or accounts; therefore, council staff included those accounts in whole or in part as under the administration or control of the Judicial Council.

Following are the primary programs within the scope of the audit under this statute:

- Program 30 – Judicial Council
- Program 35 – Judicial Branch Facility Program
- Program 45 – State Trial Court Funding
- Program 91 – Capital Outlay

Summary of Findings

Below are the issues and recommendations received from OSAE and statuses and responses provided by the Administrative Director (AD) and included in the report.

OSAE Issue and Recommendation No. 1

Issue: Employee receivables and payables were not cleared timely.
Recommendation: Timely collect and clear employee receivables and payables.
Status: Ongoing monitoring
AD Response: Employee receivables and payables are tracked closely by Judicial Council staff. When benefit changes occur or new employees are hired, the State Controller may take up to three months to key in the changes to benefits into their system. Judicial Council staff cannot process amounts due or payable timely because of the lag time of implementation into the system. Judicial Council staff discuss with employees the delay and manner in which employees wish to pay the amounts due (payroll deduction, check, etc.). In addition, to minimize undue hardship on employees when they owe large amounts, employees have the option to participate in a payment plan for a defined period. Payment plans result in amounts that appear not to be cleared in full on a timely basis, however, all amounts due are tracked under agreed upon payment terms and are reconciled monthly.

OSAE Issue and Recommendation No. 2

Issue: Vendor payment duties were not adequately segregated.
Recommendation: Reassign incompatible duties to ensure individuals that can input and approve payments cannot also update the approved vendor master file.
Status: Fully implemented
AD Response: The accounting supervisor's access to the Vendor Master File was removed immediately after staff was notified of the auditors' concern. Vendor Master File access is now limited to two individuals with no payables access.

OSAE Issue and Recommendation No. 3

Issue: Deposits were not always allocated timely.
Recommendation: Ensure deposits are posted to the appropriate account timely.
Status: Ongoing monitoring
AD Response: Checks are deposited in the Judicial Council's local revolving fund as soon as they are received in Accounting; all four checks noted in the audit as distributed late were deposited timely. Checks that have a clear indication of where they should be posted are posted to the fund and account code timely by Accounting. When Accounting receives a check and is unable to determine to what fund and account to post the monies, Accounting asks the applicable office for research and documentation. Three of the four aforementioned checks were distributed late because they were for insurance settlements; the fourth was mistakenly noted to be an insurance settlement. Construction insurance settlements are applied to funds and accounts after the damage remediation occurs and those related costs are paid and accounted for; this process often has an inherent prolonged time frame. Accounting will continue to monitor and follow up on received and deposited checks that have not been posted to the appropriate funds and accounts.

OSAE Issue and Recommendation No. 4

Issue: Reconciliations were not properly reviewed.
Recommendation: Timely review reconciliations. Both the reviewer and preparer should sign and date the reconciliations.
Status: Fully implemented
AD Response: The General Ledger Unit of Accounting has a process in place to timely review all reconciliations, with the preparer and reviewer initialing and dating that review. The General Ledger accounting supervisor will monitor the timeliness of the review process regularly.

OSAE Issue and Recommendation No. 5

- Issue:** Some policies and procedures were not documented.
- Recommendation:** Develop policies and procedures for revenue collections (including court interpreter licensing, rent and lease agreements, joint occupancy agreements, sanctions, and trial courts), fund reconciliations, art purchases, and Property Management Accounting Unit review of invoices.
- Status:** Pending
- AD Response:** By November 1, 2015, internal policies and procedures will be developed for revenue collections for court interpreter licensing, rent and lease agreements, joint occupancy agreements, and trial courts, fund reconciliations, and for the Property Management Accounting Unit review of invoices.
- Also by November 1, 2015, an art purchases policy will be approved by the Judicial Council. Currently, a draft Judicial Council Policy on Art Acquisition for Court Facilities has been prepared and will be reviewed by various advisory committees before submission to the Judicial Council.

Attachments and Links

Judicial Council of California's Fiscal Compliance for the Fiscal Year July 1, 2013 through June 30, 2014, at www.dof.ca.gov/osae/audit_reports/documents/FinalReport-JudicialCouncilofCaliforniasFiscalComplianceAudit_000.pdf